OPEC'S POLICIES: A THREAT TO THE U.S. ECONOMY

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COMMITTEE ON INTERNATIONAL RELATIONS

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SANFORD, South

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OPEC'S POLICIES: A THREAT TO THE U.S. ECONOMY

TUESDAY, JUNE 27, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 10:45 a.m. in Room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (Chairman of the Committee) presiding.

Chairman GILMAN. The Committee will come to order. Members please take their seats.

We are very pleased to welcome Secretary Richardson back to our International Relations Committee for our hearing this morning on OPEC's Policies: A Threat to Our U.S. Economy, and to note that later on this week Secretary Richardson will speak on similar topics before at least three other Committees in the House and Senate. It sounds like you have a busy week, Mr. Secretary.

I want to welcome former Senator Howard Metzenbaum, who has joined us today. Welcome, Senator.

Today's hearing is the third in our series on the impact of the price fixing schemes by the Organization of Petroleum Exporting Companies on the American homeowner, on the small businessman, on our commuters, on our aviation industry, on the truck drivers and the policy maker who sits in your seat and must manage this uneasy and very troubled relationship. We look forward to holding additional meetings of our Committee to explore additional issues related to the energy crisis facing the American people, including a sustainable energy strategy and a review of the profits of the major oil companies that are up some $7 billion over the past year and the OPEC nations whose revenues have doubled over the past 2 years.

I would also note that the General Accounting Office released a report over the weekend reviewing areas where existing controls over foreign travel of our nuclear scientists can be and should be strengthened.

I would ask our good Secretary if he would make a brief comment on that issue during the course of the morning. I realize these incidents occurred before your watch at the Department.

In regard to our topic today, I can't help but conclude that our policy toward OPEC is hard to discern, and harder still to explain to the average American who has seen his gasoline prices rise some 60 cents over the past year and a hike to record levels in the Northeast and Midwest. Our Vice President has called for an investigation by the Federal Trade Commission into possible price gouging by the oil companies. I think many of us agree that would be appropriate. But certainly that is not enough, and certainly is not a forward looking policy that will lead to lower gas prices in the future.

Oil prices today are higher than at any time since the Iraqi invasion of Kuwait. Continued high prices for gasoline and other fuels are now beginning to stunt our own economic growth and to curtail global growth prospects as well. In addition, they are stoking the flames of inflation, inducing bankers to raise their rates and curtail lending.

How has the administration reacted to this growing threat to our pocketbook and our prosperity? Remarkably passive in the face of OPEC's continued assault on our free market system and our antitrust norms. This administration is still firing blanks when it should be making an all-out attack on a production allocation system which has kept oil at $30 a barrel for much of this year.

The oil producers are in clover with multibillion dollar profits while the consumers are in hock to a cartel that is turning our economy's soft landing into an abrupt free-fall with apparently no rip cords left to pull. We are still waiting for the answers we raised at the first hearing. What has the administration done to systematically review our policies toward OPEC and its member states? Why has the administration failed to weigh in strongly enough with OPEC last year to prevent a continuation of production cutbacks? And how can we begin to take effective action against its continued production cutbacks and price fixing behavior?

The administration's laissez faire approach has sent a clear signal to OPEC that price fixing is okay by us, that production cutbacks are not so bad after all, and that as long as you keep trying to aim at a reasonable price for crude oil, you can overshoot $30 barrel oil with not so much as a slam on the wrist. Our government has become the victim of the manipulation of the oil market by OPEC.

The legislation I introduced last week, the Foreign Trust Busting Act and the International Energy and Fair Pricing Act of 2000 will ensure that this administration adopts a consistent and a comprehensive policy of opposition to OPEC and to other similar cartels. In the ongoing energy crisis facing our Nation, we can help keep the spotlight where it belongs, on this international energy cartel. With the enactment of this measure, the administration will no longer be able to go back to business as usual in supporting any back room arrangements and cartel-like behavior.

The first measure would allow lawsuits to be brought against foreign energy cartels. Our second measure would specifically direct the President to make a systematic review of its bilateral-multilateral policies and those of all international organizations and international financial institutions to make certain that they are not directly or indirectly promoting the oil price fixing activity policies and any of the OPEC programs.

It would require the administration to launch a policy review of the extent to which international organizations recognize and/or support OPEC and to take that relationship into account in assessing the importance of our relationship to those organizations. It would also set up a similar review of the programs and policies of the Agency for International Development to ensure that that agency is not directly or inadvertently supporting OPEC programs and policies.

Finally, it would examine the relationship between OPEC and the Multilateral Development Banks and the International Monetary Fund and mandates that our U.S. representatives to those institutions should be using their voice and vote to oppose any lending or financial support to any nation that provides support for OPEC's activities in manipulating our fuel prices.

I now turn to our Ranking Minority Member, the gentleman from Connecticut, Mr. Gejdenson, for any opening remarks.

Mr. GEJDENSON. Mr. Chairman, the failure to act about our energy independence really starts here in the Congress. If you think of the initiatives of the Republican-led Congress over the last 6 years, I think one of its earliest initiatives was simply to abolish the Energy Department. But it got worse. When we take a look at where we are today as a Nation, this Congress has continuously prohibited the administration from increasing the standards of efficiency on automobiles. This is not simply as bad as living with the status quo, because as Americans moved from cars to trucks, it actually reduced our overall fleet average. If you want to create new forms of energy and you want to do it quickly and efficiently, just increasing our fleet average by one mile per gallon would save 12.5 million barrels of oil per year.

For those of you who think this would somehow infringe on our personal freedoms, think about this. When I was a teenager, a Corvette got 9 miles to the gallon. Today that same car, more powerful and faster, gets 27 miles to the gallon, because Congress and the administration after the energy crisis forced the automobile industry by increasing CAFE standards, not as this Congress has done by blocking the administration from increasing CAFE standards.

One mile per gallon, 12.5 million barrels of oil. That is an impact that clearly would help us toward energy independence.

We also have a problem here with oil company mergers. The oil companies keep running to us with new mergers, arguing they are increasing efficiency. The only efficiency that seems to be gotten from these mergers is the oil companies are more efficient at ripping off the American people. The first quarter profits before the most recent increases in gasoline profits indicated that some of these companies had increased profits of as much as 500 percent. While we can complain, and rightly so, about the oil supply from other nations, these American corporations are taking advantage of America and damaging its economy in a conspiracy that will hurt all of us.

We are in a difficult situation in the Northeast, and the one place where I think the administration has not moved fast enough, Mr. Secretary, is last year in February, when we hit that cold snap and suddenly New England saw escalating energy costs, I said then that the heating oil crisis of that winter would become a gasoline crisis of this summer. I can tell you now as sure as we are all here that this gasoline crisis is still going to become a heating oil crisis.

Now, today, or at least yesterday when I took a look, or the day before, there was about a $6 difference between the spot markets and the futures market on oil, even though the Senate and Mr. Lott has sat for 76 days on reauthorization of the SPRO, the House passed reauthorization of the Strategic Petroleum Reserve, whose legislative authority has expired. The Senate has sat on that legislation for 76 days as Mr. Lott and others make speeches about this crisis. We ought to be dumping SPRO, trading SPRO, increasing the short-term supply to drive prices down, and we ought to make sure that there is a Strategic Petroleum Reserve in the Northeast.

The House rejected that by 2 votes just recently, 193 to 195. This "just on time" delivery by these handful of large, merged oil companies will leave our Northeast citizens again in the dark and in the cold. Congress and the administration needs to move quickly to make sure there is a Strategic Petroleum Reserve.

You can drive less if there are high gasoline prices. You may be able to carpool. But when heating oil prices get to the point where citizens can't afford to heat their homes, we endanger their lives and security.

Again, from my Republican colleagues often we hear the solution is take away environmental protection laws, cut the standards of emissions into the atmosphere. That is unacceptable. We need to make sure that we invest in alternative energy that will give us clean energy and make this country independent. We have squandered the 20-some years since the last energy crisis. Let us hope we have a wake-up call here that we can leave this kind of hearings of the week that we are having and move on to legislative action by the Congress.

The Congress ought to pass a new CAFE standard, demanding more efficient standards for trucks and cars. The Congress ought to provide the funds for research and development in alternative energy, even when oil prices are low, so we can't be blackmailed when oil prices are high.

The first hearing that the Republicans had on energy happened about a year and a half ago, and it was interesting that a number of the Members at that hearing were complaining that the administration was at fault. They were complaining the administration was at fault because oil prices were too low, that oil prices were 10, 12, $13 a barrel, and they thought oil prices needed to be $25 a barrel. Well, again we are here and it is the administration's fault.

Well, it seems to me Congress, before it puts the blame on the administration, ought to take the initiative and do the things we can do. We ought to get Mr. Lott out of the way so we can reauthorize the Strategic Petroleum Reserve. We ought to make sure there are tax credits for alternative energy. Every one mile per gallon saves us 12.5 million barrels of oil a year, just as if you drilled a hole in the floor here and came up with that oil. Increase the CAFE standards, help alternative energy, help weatherization, and we will make this country more independent and strong.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you. Permit me to remind my colleagues and Mr. Gejdenson that today we will be looking at the issues Mr. Gejdenson raised, but we will also be focusing on OPEC and our failed policies toward that cartel. I would remind my colleagues that a recent CRS report concluded that 80 percent of the recent rise in gasoline prices is attributable to the higher crude price, and that is attributable to OPEC.

Any other Member seeking recognition? Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman. I want to welcome our former colleague, Secretary Richardson. He and I were next-door neighbors for 4 years in the House of Representatives and visited a lot of dangerous and unpopular places like Angola together. I think the Secretary is a little nostalgic for the days when he could be asking the questions up here.

I would say to our colleague from Connecticut, I have never complained about low oil prices, it is for sure. In Secretary Richardson's home State and my home State, people have to travel long distances to conduct the business of life and get to their jobs. A very high proportion of the people are in that situation. I would have liked the FTC to move beyond looking at the problems in Illinois and Wisconsin to the Upper Great Lakes. Just to give you one example, at a time when we had very low commodity prices, we had the worst drought conditions in a 115-year history of climatology in my State.

Perhaps some of you who are air travelers have noticed those green circles in the western half of the United States. Those have nothing to do with alien spaceships. Those are center pivots, and they are particularly needed now. Today it is costing our farmers when they really need to move those center pivots 50 percent more in fuel every time they revolve around the field than it did a year ago. We are very concerned whether the administration intervened early enough and energetically enough with respect to OPEC and interested in what we can do to make sure we are not subject to their price setting by oil production limitations.

That is why we are here. I hope we will focus on these issues and we are looking for some answers. Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Bereuter. Mr. Lantos.

Mr. LANTOS. Thank you, Mr. Chairman. I want to welcome our good friend and former colleague, Secretary Richardson, who seems to be the designated victim of the week. I would like to pay public tribute to his long and distinguished public service, both in this Congress and in the administration at the United Nations and the Department of Energy.

I was rather amused, Mr. Chairman, when you accused this administration of pursuing a laissez-faire policy, because unless I am mistaken laissez-faire policies have been the hallmark of the Republican Party for a long time, and I am not sure as of this moment whether you have used the phrase laissez-faire as a pejorative or as a laudatory statement concerning the administration.

But be that as it may, I do not believe that it will be successful on the part of anyone on this Committee or in the other body to place the blame of responsibility for the current high prices of energy on the shoulders of this administration.

As my colleague indicated earlier, the Republican majority began its energy policy by recommending the abolition of the Department of Energy, which is a hell of a way of crafting an energy policy for the one remaining superpower on this planet.

That idiotic notion has now been abandoned. But I would not like to embark as my colleagues by having a rollcall of my Republican colleagues in both the House and the Senate, including some presidential candidates, who joyfully called for the abolition of the Department of Energy as their first step in crafting an intelligent energy policy for the Nation.

I also think it is important to realize that it is the majority which has had for a long time, a long, long time, an incredibly chummy relationship with the giant oil companies. Now, for us to hold a hearing on high energy prices and not to recognize that the American people currently are being gouged by the oil companies, where the profit margins have increased to absolutely obscene proportions, would indeed be naive in the extreme.

I would like to focus in on two or three specifics, Mr. Chairman, if I may. Funding for energy research and development during the three Congresses where your party was in the majority. Just a quick examination of the Energy and Water and Interior appropriations for fiscal years 1996 through 2001, the period in which you controlled the budget, clearly demonstrates that the majority has repeatedly failed to invest the resources necessary to improve our energy independence.

This has occurred at the very same time when the Clinton-Gore administration requested higher levels of investment in this crucial field every single year. Every single year the majority cut the request by hundreds of millions of dollars. For energy supply research and development at the Department of Energy, the major account, Mr. Chairman, that supports R&D to develop alternative fuels and renewable energy technologies, the cumulative cut below the administration request is $1,970,291,000.

Now some Members of the majority are accusing this administration of not doing enough to encourage the development of the domestic oil and natural gas industries. The fiscal year 2001 bill recently approved by the Committee, the majority cut funding by $84.5 million below the President's request.

I want to spend a moment, if I may, Mr. Chairman, on funding for conservation. It is self-evident that we can dramatically improve our energy security by boosting conservation efforts. Every action we take that reduces the consumption of a barrel of oil means we have to import one barrel of oil less. Once again, the Republican record when it comes to investing in conservation is abysmal. In fiscal year 1996, the first year the new majority wrote the appropriations bills, that investment was slashed to $552 million by the House, a reduction of $202 million below the year earlier level.

In the first year, your majority cut by $202 million investment in conservation. Between fiscal year 1996 and 2001, the cumulative reduction below the administration's request for energy conservation exceeds $1 billion, Mr. Chairman.

So we are not going to sit here quietly and listen as to how the administration's laissez-faire policies brought us to where we are.

My colleague has talked about CAFE standards. Current standards have been in place now for a long time, and you do not have to be a rocket scientist to recognize that increasing CAFE standards would dramatically enhance our energy security.

My view of the administration's failure is really concentrated in two areas where I think the administration, as indeed the previous administration, deserves criticism.

Chairman GILMAN. Mr. Lantos, I am going to ask if you would be brief so that we can have an opportunity to hear the Secretary. I am going to ask any further opening remarks be limited. We will limit opening marks to 5 minutes.

Mr. LANTOS. Do you want me to make my criticisms of the administration or not, Mr. Chairman?

Chairman GILMAN. I would just ask you to summarize, if you would, Mr. Lantos, so other Members will have an opportunity.

Mr. LANTOS. I will be happy to. This administration, as the previous Republican administrations, have not been forceful enough in dealing with OPEC. The two key countries of OPEC, Saudi Arabia and Kuwait, are today countries because we went to the Persian Gulf to protect them. Had we not put a half a million American military into the Persian Gulf War, the King of Saudi Arabia would be living on the French Riviera and the Emir of Kuwait would have a villa next to him. I think both the Republican administrations and this administration should have exerted a far more effective policy measure vis-a-vis OPEC, particularly the two countries whose very survival we ensured less than a decade ago.

Secondly, I am one of those who has advocated for a long time dramatically increasing our Strategic Petroleum Reserve. Had we done so, we would now be in a much more comfortable position of releasing significant supplies. I still believe that under the present circumstances, releasing supplies from the Strategic Petroleum Reserve once the legal possibility is open should be done.

Thank you, Mr. Chairman.

Chairman GILMAN. I am going to ask our further speakers to please be brief so that Members will have an opportunity to hear Secretary Richardson.

Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. I certainly agree with Mr. Lantos on a couple of things he said, but on some others I have some disagreement. First of all, I agree with Mr. Lantos in welcoming Bill Richardson here. He is a man of impeccable credentials and a fine record of public service, and I will not be using him as a punching bag even though he has got the punching bag suit on to take the blows for administration policies that he, of course, as a member of the administration has to be the advocate of.

So with that said, welcome, Bill, and, again, the other thing I agree with Mr. Lantos on is this administration has not used—the Clinton-Gore administration has not used the leverage that it has on members of OPEC, especially Saudi Arabia and Kuwait, to keep oil prices under control. The American people are suffering because of that.

It is the Clinton-Gore administration that has not used this leverage. It is not Congress, it is the Clinton-Gore administration. Now, why haven't they used that leverage? Why haven't we told our Saudi allies and Kuwaiti allies that we have to have some stability in the price of oil, rather than these gouging and major increases we are suffering under today?

It is because the Clinton-Gore administration supports higher prices for gasoline. Now, all of the political rhetoric we hear from the other side of the aisle can't hide the fact that Vice President Gore has made it very clear. He wrote a book about it. He wants higher prices for gasoline. He blames the American consumer for the fact that the United States is contributing to the global warming problem, supposed global warming problem. And what is his solution? His solution is pay more money. Have the people in our country pay more money for gasoline, as if it is not going to affect their standard of living.

It is this administration, the Clinton-Gore administration, that is pushing for these Kyoto protocols, that, again, what is the purpose of those Kyoto protocols? To raise the price of gasoline. There is no political rhetoric on the other side of the aisle that is going to disguise this. You can talk about some of the proposals the administration has made for conservation, which are aimed at lessening the pain suffered by the American people, but the fact is that the Clinton-Gore administration blames the American consumer, blames the victim, rather than using its leverage against the OPEC cartel and rather than trying to expand America's supply of energy.

Mr. Chairman, I think that Congress and this administration should be working together to increase the supply of oil so that our people won't suffer, and we must quit playing these political games which we have heard today in which we are trying to blame Congress, for Pete's sake, on this. We have an administration spokesman to talk to, and let's be serious about it. Thank you very much.

Chairman GILMAN. Thank you, Mr. Rohrabacher.

Mr. Ackerman. Please be brief, all of my colleagues.

Mr. ACKERMAN. I ask unanimous consent to put the full text of my remarks in the record.

Chairman GILMAN. Without objection.

Mr. ACKERMAN. Mr. Chairman, I want to echo the sentiments of Mr. Gejdenson and Mr. Lantos in their entirety, and also add my personal welcome to our former colleague, Bill Richardson, who has shown tremendous courage and determination all over the world in spreading humanitarian and human values and doing acts that I think all of us would recognize as heroic, and for doggedly sticking to the task of trying to bring some reason and responsibility to America's energy policy.

Having said that, I can't help but comment on the politics that are going on here, first in the construct of the hearing. I find it incredible that we are having a hearing on how oil prices are affecting the American economy and providing a safe haven by excluding the appearance of the oil companies at this hearing.

Chairman GILMAN. Mr. Ackerman, if you would pause a moment and let me interrupt, we will be conducting a further hearing with the oil company representatives.

Mr. ACKERMAN. When would this be, Mr. Chairman?

Chairman GILMAN. As soon as we can put it on the schedule. The staff is working on it now.

Mr. ACKERMAN. Would it be within the next few weeks?

Chairman GILMAN. We would hope to get it out as quickly as possible.

Mr. ACKERMAN. Does that mean in the next few months?

Chairman GILMAN. No, it would be as quickly as possible, Mr. Ackerman.

Mr. ACKERMAN. Would that be before the November election?

Chairman GILMAN. Possibly into the next tenure, if you are going to pursue this. We are going to have it as quickly as possible.

Mr. ACKERMAN. We are prepared to wait as long as hell freezes over in the Northeast, Mr. Chairman.

Chairman GILMAN. Mr. Ackerman, we have a limited period of time.

Mr. ACKERMAN. Mr. Chairman, I will use my time the way I see fit. Nobody interrupted your 25-minute oratory. Thank you, Mr. Chairman. I think all the Members deserve the same courtesy.

The rest of the politics in blaming the Clinton-Gore administration for high oil prices is also absurd, or haven't we taken a look at where all the Texas oil money is pouring into whose campaign? Forwarded to the campaign of Mr. Bush and Bush the Second. It doesn't seem to be going to the Clinton-Gore administration. So a little bit of reality here, Mr. Chairman, would serve us well.

I think I have said my piece, and I don't need the rest of my 5 minutes. I yield back the balance of my time.

Chairman GILMAN. Thank you.

Mr. Brady.

Mr. BRADY. The inescapable fact is America is addicted to foreign oil and we are falling deeper into addiction every day. Many have chosen to blame OPEC, the dealers of the oil, for not selling to us at a fair street price, which is ludicrous. America needs to kick its habit, its dependence on foreign oil, and that is one of the questions the Secretary Richardson needs to answer today, why we fail to address the real problem.

America's oil and gas production is at its lowest in 50 years. We have walled off reserves of clean coal and Alaskan and Gulf Coast oil. The President has vetoed efforts by Congress to increase our independence.

There is no responsible, sensible energy policy to decrease dependence, and so far our energy policy with this administration is summed up like this: Buy fewer Ford Explorers and more longer lasting light bulbs. That is why we have higher fuel prices today.

Others, as you heard on this dais, have tried to divert blame by pointing fingers at the oil companies. Well, the lack of a comprehensive, responsible energy policy has resulted in a loss of 100,000 American jobs this decade in the energy industry. That is 10 times more than steel and every bit as many jobs as we lost in agriculture. Since this administration took credit for the low fuel prices, it is important that they take the deserved blame for the higher fuel prices.

Finally, Mr. Chairman, one of the key questions today deals with conflict of interest. Do the current high fuel prices promote this administration's environmental goals? Do we have a conflict of interest between the environment and affordable fuel for homeowners?

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Brady.

Mr. Royce will be our last speaker, and then we will go on with the Secretary's testimony.

Mr. ROYCE. Mr. Chairman, I appreciate that. We have heard a defense of the Department of Energy after the disastrous guarding of our nuclear secrets, after we have seen the inability of the Energy Department to formulate an energy strategy. And let me just say this for the record, it is not for the lack of spending. We spent $17.8 billion over in the Department of Energy. Is this really the record we wish to defend?

The answer which we have heard here is to raise taxes, to spend money on new subsidies for alternative fuels. The world is awash in oil reserves, and it is a matter of using our diplomatic clout to increase production out of OPEC, and yet what we have here is a call for more funds into the Department of Energy.

I just want to share with you my observation. This administration has been able to push up the gas taxes to the point where they are 60 cents a gallon State and local. That is the hit now. I just want to share with you the words, a quote. "The United States should start by gradually imposing a higher gasoline tax, hiking it by 1 or 2 cents per month, until gasoline costs $2.50 to $3.00 per gallon, comparable to prices in Europe and Japan." That is what Paul and Ann Ehrlich said in their book, and this is what Vice President Gore said. The time for action is due and past due. The Ehrlichs have written the prescription.

Now, it was Vice President Gore who was the chief advocate of the energy tax, arguing it was good for the economy, good for the environment, and I would urge you to read George Stephanopoulos' book "All Too Human" about that. This administration has pursued this goal. What we would like to do, what the Chairman of this Committee would like to do, is get some focus on the question of OPEC and getting some leverage on OPEC to break that cartel. I would just like to say as Chairman of the Africa Subcommittee, I have listened to the Nigerians explain that they would like to double their production of oil. I think it would be wise for the administration to get behind that effort. You know, new technology is allowing for deeper offshore drilling. West Africa is one of the top regions for oil prospecting. Frankly, their known reserves dwarf anything in the Caspian Sea.

We need to have a focused energy policy on breaking up this OPEC cartel and taking those countries that want to develop more production on their reserves and encouraging them to do so. I hope we end today's hearing with some commitment that we will focus on the pieces of legislation that the Chairman of this Committee has introduced in order to try to go after that OPEC cartel and break it up.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Royce.

Mr. Menendez.

Mr. MENENDEZ. Thank you, Mr. Chairman. Mr. Secretary, let me first say I was appalled at how the head hunters over at Mount Olympus, which is the Senate, treated you. We, however, have a different view. We understand and recognize your service here in the House of Representatives. We recognize your service as our U.N. Ambassador, and we recognize the tough issues you are facing in the Energy Department and want to give you the opportunity to fully explain those issues as they develop. So we appreciate your service, and I want you to know that.

On this issue, let me just say that as we enter the summer season gas prices are of great concern; but I am even more concerned about home heating oil costs this coming winter. The current inventory of home heating oil on the East Coast is 40 percent lower than at this time last year.

Mr. Chairman, this is not the first time we are having this discussion. Many of the steps we can take are already before us. Certainly OPEC should be persuaded that collusion now in the effort to gain high prices in the short term could come back to haunt the cartel in the long term. This country should not be underestimated in its ability to develop alternative energies if we work toward them.

The Vice President's announcement this week of a bold new energy policy should be read as a welcome sign to America's consumers and a warning sign to OPEC's producers.

I have joined a large number of my Democratic colleagues in calling for urgent action on several fronts.

We have asked the Federal Trade Commission to expedite its investigation into price gouging on the part of the oil companies. Major oil companies have nearly tripled their profits as a result of these price increases, from $4.5 billion in profits in the first 3 months of 1999, to more than $12 billion in the same period this year. We have also urged the leadership in Congress to unblock efforts to renew the Strategic Petroleum Reserve, and once given that authority, we hope the President will release or exchange some of reserves from the SPRO.

Finally, we call again on Congress to authorize the Northeast Oil Reserve as passed by the House but languishing in the Senate.

Lastly enough, let us not forget, Mr. Chairman, that the leadership of this Congress shares a responsibility to act now. The Republican leadership has failed to provide Americans with energy securities. It has failed to reauthorize the Strategic Petroleum Reserve. It continues to send Alaskan oil to Japan, despite our current domestic price hike, and, most damaging, it has failed to fund research and development into alternative fuels and energy efficiency.

In fact, over the past 5 years, Republicans in Congress have funded only 12 percent of the administration's request for new investments in renewable sources of energy and energy efficiency initiatives. This measly and irresponsible level of funding has been nearly $2 billion short of the Clinton administration request. I don't think it is appropriate to claim here that today the administration has no energy policy. Republicans have not only failed to build up the Strategic Petroleum Reserve when fuel was cheap, but before we faced this conflict and the difficulties we are having now, they proposed getting rid of the Energy Department and selling off the reserve, policies that would have been extremely detrimental if carried out as proposed.

When they are not trying to abolish the Department, they are starving it. So if we allow the oil companies a slight reduction in price, settling at still higher than necessary prices, we may very well affect our surplus forecasts for the future.

So, Mr. Secretary, I hope when we are finished here at the end of the day, we can agree on taking some steps now, action now, here in the Congress now, hoping the Republican leadership will put their actions against their words, so that the American economy and American consumers this summer and this fall will have some relief before we face a winter of discontent.

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Menendez.

Ms. McKinney.

Ms. MCKINNEY. Thank you, Mr. Chairman. I would like to join my colleagues in welcoming the Secretary to our hearing today, and I am glad that the Secretary is not going to be the punching bag, but it sure sounds like he has been so far.

I have some concerns that I would like to express. My first concern, Mr. Secretary, is that it appears that the old Standard Oil Trust is reassembling itself and we are being supported with repeated mergers and consolidation, and that is happening on our own shores and not thousands of miles away. I haven't heard much of an outcry about that.

Also, Mr. Secretary, I am concerned at reports that have been produced saying that oil prices as high as they are, gasoline prices as high as they are, are higher in black and minority neighborhoods than they are in white neighborhoods, probably a new manifestation of driving while black.

I am also concerned, Mr. Secretary, that racial discrimination and racial harassment at Savannah River site. The poor employees have to foot their own legal bills when they fight back, but the multibillion dollar Westinghouse Corporation can tap taxpayer funds and fight the employees. There we have got situations where, such as an example, where one black employee was surrounded by white coworkers who were dangling nooses, and yet the Westinghouse Corporation can proudly say they are going to use taxpayer funds to defend themselves when black employees try to fight back.

I am also concerned that oil companies have given hundreds of thousands of dollars in campaign contributions and probably no telling how much they have given to these 527 organizations that have no disclosure requirements whatsoever, and, quite frankly, they have given more money to George Bush than they have given to Al Gore, although I do have problems with Al Gore's association with Occidental and in Colombia as it affects the U'Wa people.

Finally, I would just like to say I think it is a travesty that given what is happening in the oil industry, that we don't have anyone from the oil companies here at this hearing today. But I do want to welcome the Secretary.

Chairman GILMAN. Thank you, Ms. McKinney. Again, I want to remind you, we will be conducting a further hearing in the near future with our oil company experts here.

Mr. Manzullo.

Mr. MANZULLO. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. We were here several months ago and I asked the Secretary what the administration's policy, if any, would be toward an international criminal conspiracy, where people got together and decided to fix the price of oil, where if that had been done by domestic companies, those people would have been jailed. The Secretary advised that diplomatic talks were under way, and that is about the best that he could give us. That may be about the best that the Secretary can give us, absent the clear direction from the President or from the United States Congress.

I guess what bothers me is that I represent an area, one of whose counties is in the Chicago Metropolitan Area, where the price of gasoline is $2.50 a gallon. This hurts farmers, this hurts the trucking industry. These costs are being passed on to the consumer and were it not for the fact that the costs of energy is excluded from the core index for inflation, it probably would be reflected in higher interest rates, which in fact may be the case if in fact the Fed decides to raise those interest rates. Maybe they will ignore the core index rate and take energy into consideration. Let's hope not.

I think what bothers me more than anything is an attempt to try to get to the cause of the problem. The Congressional Research Service says that 48 cents of every dollar increase in gasoline is attributable to OPEC, 25 cents for every gallon is attributed to the energy policy of the administration, and prior administrations, on the new formula for gasoline to be used in non-attainment areas, and 25 cents per gallon is a probable distribution caused by the new mixing. That is at $1 per gallon. We have three reasons here to go after OPEC and to make EPA accountable.

But I just want to add this: The people who have tried to make this political, and Ms. McKinney talked about it, is that the Vice President's portfolio of Occidental has doubled in value from between $250,000 and a half a million, to half a million to $1 million as a result of his being influential in privatizing some oil fields that were formerly owned by the Federal Government.

So the axe goes both ways in this situation. But I would say, not to politicize anything, let's ask the Secretary what his views on this proposed legislation are, because I think in all defense to the Secretary, absent clear direction from Congress and its administration, he is doing what he can under the circumstances and it has been very limited. The authority given has been very limited.

Thank you.

Chairman GILMAN. Thank you. We would like to ask the Secretary very shortly what his views are. Mr. Delahunt will be our last speaker. I have been told that the Secretary must leave us by 12:30. Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman. I will be very brief. To pick up on the observation by Mr. Manzullo regarding his desire not to politicize it, despite the fact he did make a reference to the Vice President and his holdings in Occidental, I think in response to that it behooves me to enter into the record the fact that while Vice President Gore has accepted $100,000 from oil and gas PACs, in fact the campaign of Governor Bush has accepted in excess of $1.5 million from oil and fast PACs. I think it is important to set that record straight so that we can have a context here.

While this hearing is entitled OPEC policies, I can't believe that OPEC's policies in and of themselves, unless the major oil companies in this country are part of OPEC, and maybe, Mr. Secretary, you can amplify the relationship between the oil companies and OPEC for our benefit. But I simply can't believe that the cost of home heating oil and gasoline at the pump is totally unrelated to the fact that in this quarter, the first quarter of 2000, as compared to 1999, the profits for these following companies has increased by these percentages: Texaco, 473 percent, over 1999, the same quarter; Conoco, 371 percent; BP-Amoco, 296 percent; Chevron, 291 percent; Phillips, 259 percent; ARCO, 136 percent; Shell, 117 percent; and Exxon-Mobil, 108 percent.

I just thought I would read those figures into the record to provide some context. I yield back.

Chairman GILMAN. Thank you, Mr. Delahunt. We are pleased to welcome the Secretary before us today. Mr. Richardson is, of course, well-known to all of us. For eight terms as a Congressman, he represented the Third District of New Mexico, and from 1997 to 1998 Mr. Richardson ably served as our Ambassador to the United Nations. In August 1998, Mr. Richardson was sworn in as our ninth Secretary of Energy. He has also served as the President's special envoy to many of the world's troubled areas.

I am pleased to welcome Secretary Richardson today as the leading energy troubleshooter. Mr. Secretary.

STATEMENT OF THE HONORABLE BILL RICHARDSON, SECRETARY, DEPARTMENT OF ENERGY

Secretary RICHARDSON. Mr. Chairman, Members, thank you very much for your very gracious and supportive comments that many of you made. Let me just start out with hopefully what we see in the short term as good news, but we can't yet call this a trend. But heading into the 4th of July, this is good news, and hopefully, and I said hopefully, we are turning a corner on gasoline prices.

We are examining a trend in the last week. Nationally conventional regular gasoline dropped 3 cents. In the Midwest conventional regular gasoline dropped 7 cents. In the Midwest, reformulated gasoline dropped 12 cents to $1.88 in the last week. Prices are still unacceptably too high. We are working vigorously to bring them down, and my main message here is that we have to do this in a bipartisan fashion, that we need to take some steps and the Congress needs to take some steps, and we have to resolve these problems together.

Mr. Chairman, any actions we take in the Clinton-Gore administration on energy are based on a number of steadfast principles. This is what they are.

Number one, market forces, not artificial pricing.

Number two, diversity of supply and strong diplomatic relations with energy producing countries.

Number three, improving the production and use of traditional fuels through new technology development.

Number four, diversity of energy sources with long-term investment in alternative fuels and energy sources.

Fifth, increasing efficiency in the way we use energy.

Lastly, maintaining and strengthening our insurance policy against supply disruptions, and that is the Strategic Petroleum Reserve.

Mr. Chairman, I addressed to you in the spring what I thought was a very productive hearing regarding actions by the administration to counter tight markets, low worldwide oil stocks, and gradually increasing prices. At that time we were taking specific actions to address an untenable imbalance between supply and demand, one that risked negative repercussions in the world economy.

We continue to believe that markets should set prices, but while we import 22 percent less oil from OPEC today than we did around our last gas crunch, which was in 1977, it remains clear that actions by major oil producing nations still significantly affect oil supply.

That is why this spring I spent a great deal of my time talking with energy ministers and leaders from the oil producing nations, Saudi Arabia, Kuwait, Mexico, Norway and Venezuela, often getting great criticism from one side that I wasn't tough enough, from the other side that we were too pressure oriented. Each of these nations is well aware of the special economic and energy relationships between their country and the United States, as well as to other importing countries. Each of these nations agrees that stability is our common goal and that volatility in the oil markets is undesirable.

We met with some success at that time. In February, all OPEC governments were quoted as saying that production increases were unnecessary. But, on March 28th, OPEC announced their decision to increase production and other producers joined them. We saw some trimming of crude prices then and some slight easing on gas prices. They did go down for a while. But very low stocks and soaring demand have boosted prices still higher since that increase. So I have continued to keep producing nations abreast of our situation and made our position clear. With prices staying high since spring, we needed to do more. I urged OPEC to keep an open mind.

Now, it is worth remembering that OPEC is a consensus organization and not all governments in OPEC are friendly toward the United States. Still, the consensus that came about when the OPEC leaders met in Vienna, Austria, last week, increases output by roughly 3 percent, about 708 million barrels per day, and Mexico will provide an additional 75,000 barrels a day, Mexico being a non-OPEC country. We also anticipate an additional small increase from other non-OPEC producing countries soon.

Overall, we believe that OPEC's decision is a testament to the fact that those governments responded to the concerns that we raised. While this recent lift is modest, it is an important step. Mr. Chairman, since this time last year, we have seen a nearly 3.5 million barrel per day increase in production. This is substantial and it is not only good for America, but it is good for Asia, Europe, and all the world economies.

I am pleased to report that in the past week, as I said, we have seen some positive movements in the market, this based from the Energy Department's Energy Information Administration, reporting, as I said, that conventional regular gasoline has dropped 3 cents per gallon over the past week nationwide and in the Midwest, where we are seeing very high prices, EIA sees a drop of about 7 cents per gallon on conventional regular. Reformulated gas is down 12 cents a gallon in the Midwest. We can't yet, as I said, call this a trend, but heading into the 4th of July this is good news.

But we are still not seeing the greater price decreases, both per barrel of oil and per gallon of gas that we might have hoped for.

The reason for this is quite simple: Demand. The world's thirst for oil is steadily rising. Other than 1997, the second quarter of this year may show the strongest year-over-year growth, 2.1 million barrels per day, ever. When combined with our need to build inventories from historically low levels, enlarging supply increases of 3 million barrels per day are not enough, and demand will continue to grow. We need to encourage methods to temper that need.

We are not relying on other governments for those answers and certainly not to ensure our energy security. As I mentioned, our Nation has a firm energy policy that serves as a foundation ensuring that we have the energy resources we need. Beyond that policy, the administration has also made some aggressive short-term moves to cool off particular hot points.

You remember that we had a heating oil shortfall in the spring. In response, the President released almost one-third of a billion dollars in funds in the spring so that low income households could pay their heating bills. He asked for $600 million more in low income housing energy assistance funds, and the President is seeking an additional $19 million from Congress for low income home weatherization.

We addressed the issue of supply through increased support for tankers, small business loans for distributors and other small businesses impacted by high prices, and encouraged refiners to increase production. We also reestablished an Office of Energy Emergencies at the Energy Department to coordinate with the States and other Federal agencies regarding any energy-related crisis. This move is helping us right now as we assess the demand for power during a very hot summer.

We are also seeking to turn around domestic production of oil, developing alternative sources of energy, and increase energy efficiency. In energy efficiency, one of our most exciting prospects is our work in the Partnership for a New Generation of Vehicles, PNGV, where we are looking to develop a car that will get 80 miles per gallon. While Congress has eliminated all our funding for PNGV via a recent amendment, we remain committed. We need your help on this.

You have likely read of the new release of Honda's Insight, which is nearing our 80 miles per gallon target. These vehicles are not just of the moment, they will be part of the lasting solutions we can commit to today for tomorrow. We are also looking to help independent oil producers test new production technologies and give a hand to small producers in existing fields, and we are helping refiners deal with the new EPA tier 2 rules through our ultra clean fuels program.

I think, to the Congressman that talked about domestic production, we are interested in marginal well relief for small independents, for GNG expenses, steps we think are important for domestic oil and gas producers. But still we remain concerned about oil supplies. There is significantly more oil on the market today than there was prior to OPEC's March meeting, and domestic production is turning around. But we need to ensure that supply is sufficient enough to meet demand and to build stocks, both worldwide and here at home.

This will help the market operate within a comfortable margin of safety for the remainder of the year. Still, facing the imminent 4th of July weekend, America cannot declare independence from the gas pump. This is peak driving season and refineries in the U.S. are already operating at 96 percent utilization and at 99 percent in the Midwest. When levels are that high, it clearly indicates that demand is the driving factor.

So I don't think that the production boosts are going to immediately push prices lower, but I think we are close to turning the corner. We remain very concerned about gasoline prices in the Midwest, especially around Chicago and Milwaukee. President Clinton is very concerned about this and there is no question, drivers in those cities and other parts of the Midwest are angry. We are looking for solutions, but questions remain.

While we did have a regional pipeline problem in the spring that left supplies hobbled, our experts are talking to the Environmental Protection Agency to see what we can do in the near term to bring some relief to consumers. While there was some easing of prices at the pump in the past few days, as I mentioned in the opening, the FTC, the Federal Trade Commission, continues its investigation of pricing practices in the region, probing for unfair or illegal activity. We hope to hear from the Commission sometime this July.

We took several other steps, Mr. Chairman, in the past 2 weeks to meet some rather unexpected issues. On June 15th, I ordered a limited exchange of crude oil from the Strategic Petroleum Reserve's West Hackberry site, the two refineries, after a commercial dry dock collapsed near Lake Charles, Louisiana. Our response came within hours and shows our commitment to responding quickly. The Army Corps of Engineers has since worked overtime to dredge a new channel so oil traffic is moving once again. When there was a pipeline problem near St. Louis, we granted a waiver that postponed implementation of the new EPA rule on reformulated gasoline until the problem was solved.

But there is still more that we can do together to get relief to consumers, and these are the kinds of long-term solutions we need to embrace, to ensure that we get out of lasting cycles with prices pegged at one extreme or another.

Last week President Clinton sent a letter to the Senate majority leader and the Speaker urging that the Congress work with us to enact the President's energy proposals without delay. One central component of the President's energy initiative is a $4 billion tax package of tax incentives to encourage domestic oil and gas production and for consumers to purchase more efficient cars, homes and consumer products. This package has languished here on the Hill for 2 years.

The President has also consistently asked for increased investments to meet our energy needs. In the fiscal year 2001 budget, the President proposed a $1.4 billion investment for Energy Department programs and energy efficiency, renewable energy, natural gas, distributed power systems. We need the Congress to support these critical goals. Unfortunately, it has approved only 12 percent of the increases over the past 7 years.

We are also concerned about the deletion in the fiscal year 2001 budget for energy efficiency below last year's level. As I mentioned, a recent House amendment cut virtually all of the Department's funding for the Partnership for a New Generation of Vehicles, where we work with the Big 3 to develop more fuel efficient cars.

The House has added a rider to the Transportation appropriations bill prohibiting the Department from even studying increases in CAFE standards. We have also had perhaps what we consider the most harmful action, delaying extending the Energy Policy Conservation Act, which authorizes two programs at the core of our Nation's energy security. I know the House has acted, but it is still languishing, and that is the Strategic Petroleum Reserve and our participation in the International Energy Agency.

Mr. Chairman, the Strategic Petroleum Reserve authorization expired on March 31. We need to work together to get this done. The President also submitted a comprehensive electricity restructuring bill 2 years ago. We have not enacted a bill with the latest failure last week in the Senate when they failed to report comprehensive legislation.

To better ensure our energy security this last year, the President also has called for the establishment of a Regional Home Heating Oil Reserve in the Northeast. Mr. Chairman, we need action on this because we are concerned about stocks of home heating oil. We are talking about 2 million barrels. We are talking about a modest effort, only to be used for emergencies, and we are concerned about those supplies.

We also need a replenishment of the Low Income Energy Assistance Program emergency funds which we needed to tap during the heating oil shortfall last year.

In conclusion, Mr. Chairman, we simply cannot ensure America's energy security with such a lacking commitment to its energy future. We have to act expeditiously together. I would urge the Congress to act so that we can establish the Home Heating Oil Reserve in time for next winter. Nobody wants to see people in the Northeast next winter debating whether they can afford to eat or stay warm. It is a devil's choice and Americans should not have to live that way.

Mr. Chairman, we have viable options before us to improve America's energy security and do so in ways that are cleaner and more economical than ever before. I appreciate again this opportunity to explain to you what I have done as energy Secretary to bolster that confidence. I again thank every Member here for their courtesies and I urge the Congress to work with us to do its part and act on the critical energy proposals before us. Thank you.

Chairman GILMAN. Thank you, Mr. Richardson. Because of the very short time remaining for the Secretary's appearance, I am going to ask our Members to cooperate and to limit their questions to 3 minutes each so that each Member may have the opportunity to be heard. I will be calling on those who have not had an opportunity to make an opening statement first before we get on to the entire list.

Mr. Secretary, the Congressional Research Service issued a paper earlier this month on the very sharp rise of gas prices in the Midwest and noted the gasoline prices nationwide had increased 60 cents a gallon over the past 18 months, with 48 cents of that increase attributable to higher crude oil. Do you agree that OPEC and its member states have been playing the decisive role in our domestic energy price crisis?

Secretary RICHARDSON. Mr. Chairman, we agree with the Congressional Research Service that high crude prices are a factor, but we also believe that transportation problems, refinery problems, high demand, low inventory contributed to these Midwest price spikes. We also agree that RFG costs 5 to 8 cents more than conventional gas. We don't agree in that report that ethanol RFG accounts for 25 cents of the 48 cents price differential between RFG–2 and conventional gasoline.

We could not totally account for the price differential after we did a supply assessment, and this is why we asked for an FTC investigation. In other words, we believe the causes are higher demands in the Midwest than the national average, 3 percent compared to 1.6 percent; gasoline inventories were low going into the summer driving season, 15 percent lower than last year; thirdly, as I said, RFG–2 was introduced into the Milwaukee-Chicago markets, and then there was a pipeline problem, the Explorer pipeline in the Chicago-Milwaukee area contributed to a loss of 60 million barrels.

The main question that needs to be answered is why is there such a high price differential between conventional gasoline and reformulated gasoline. We believe that pollution controlling devices do not cause that price spike. Yes, it is maybe 3 or 4 cents more, but 30 cents? And this is why the Federal Trade Commission is investigating. They should have a response by the end of July. The oil companies have some explaining to do, the refineries have some explaining to do. But, again, let's await the results of this investigation.

But all of these factors, Mr. Chairman, should not be attributed solely to the price differential that has occurred.

Chairman GILMAN. My time has expired.

Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman. Mr. Secretary, we look at the estimates in the Northeast to be 22 percent below last year's level for home heating oil. Any kind of cold snap at the beginning of the year could be deadly if people's houses catch fire as they turn to alternative heating, obviously the result of really cold homes. I would hope that you would continue to press this Congress to get that Home Heating Oil Reserve established in the Northeast. This is a life and death issue.

Secondly, I think that the investigation of the oil companies, we haven't seen the second quarter profits yet, but my sense is they are going to be even larger than the first quarter profits of almost 500 percent increase over the year earlier. You have got to use your bully pulpit and stay after them, just like you stay after OPEC.

The last thing I would say is again that swap or sale, you have got a $6 difference between the spot market and the futures market. You ought to pump that out. Even if the Saudis and everybody fulfill their commitment, there is a gap in getting it here. There is obviously a shortage that exists already. Get that product out from—you are going to make a profit—you can put more into the SPRO afterwards with the extra money you get, so you can end up with more oil in SPRO. You could end up helping the supply problem.

So I hope you take these messages very seriously. The only other question that I would have for you is what do you think the capacity is of non-OPEC countries for increased production? Mexicans and others, where do they stand, where do some of the major OPEC countries stand?

Secretary RICHARDSON. Congressman, first, I share your view about the Northeast reserve. We need this, and we need to work with you to make this happen. We are concerned about home heating oil in the Northeast. If we can work together to get this legislation passed, the House has passed it, it is tied up in the Senate, although I am informed there is an amendment to the Energy and Water appropriations today in the House, and I hope it gets the support, because what we are talking about, Congressman, is not an effort to deal with prices.

We just want a regional reserve for the Northeast off the docks of New York and New Jersey. We can lease space. We don't have to build anything. Two million barrels for emergencies, for emergencies, not for pricing. We worry about what might happen in the Northeast. We also had some difficulty getting some reprogramming funds to get it moving, about $8 million. We need your help on that.

Looking at what options the President uses, Congressman, for the future to deal with this problem, let me just say that we have to continue monitoring the gasoline situation. A big problem is low crude oil stocks and low gasoline stocks in this country and worldwide, too. Unusually high demand. This is happening right now. We are hopeful that there will not be any more refinery or more pipeline problems. Transportation problems you cannot always account for, but we are working on this.

Your last point——

Mr. GEJDENSON. The last point was on the OPEC nations and non-OPEC nations. Are there particular countries that have capacity to pump more and are some countries at capacity?

Secretary RICHARDSON. Most non-OPEC countries, Congressman, are producing at capacity. We do predict small increases from non-OPEC countries. As I mentioned to you in March, Mexico announced that they would do 50,000 barrels more per day. In the last meeting in June, which just happened, they said they are going to do 75,000. Norway is another non-OPEC country that contributed 100,000 in March, and may be making a decision shortly about increased production in March. This is good, but, again, they have to go through their parliament.

The other countries that were involved in increases in production, non-OPEC, one was Oman, and we don't know where they may be in this cycle, and Russia was another one. But basically most non-OPEC countries are producing at capacity.

Chairman GILMAN. The gentleman's time has expired.

Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. Mr. Secretary, consumers in my district, Cincinnati and throughout the Midwest, are getting gouged, or perhaps I should say gored, at the gas pumps. Working families are being priced off the highways. Small businesses are feeling the squeeze. Frankly, your administration is rapidly losing credibility.

In February, when our constituents felt the first major spike in gas prices, you said, "It is obvious that the Federal Government was not prepared. We were caught napping. We got complacent."

Now it is late June and those taxpayers are still waiting for relief. Many of my constituents have asked me if there isn't something the Clinton administration can do when it engages in dialogue with the price fixing oil cartels. After all, it hasn't been so long ago that American servicemen and women laid their lives on the line for some of those oil producing nations that are now threatening our economy with cutbacks and production and higher prices.

I have to ask the same question: What goes on at those meetings? I note that you traveled to Saudi Arabia in February 1999, oil was then selling for $12 a barrel. In March you went to the OPEC meeting in Vienna, the price jumped to $14.68 per barrel. In July, you hosted the Western Hemisphere Energy Ministers Conference, and the cost of a barrel of oil soared to $20. In August a trip to Nigeria, $21 a barrel. By December 1999, when you hosted the African Energy Ministers Conference, the price went to $26 a barrel. After you traveled to Saudi Arabia, Kuwait, Mexico, Norway and Venezuela in February of this year, the price of oil rose to nearly $30 a barrel. Apparently whatever our government was doing during those meetings wasn't working very well.

Do you think it is perhaps time for the Clinton administration to take a different approach? Do you think perhaps we can send a strong message to the price fixing oil cartels that we take a dim view of this criminal behavior and that our President will finally respond to this crisis by exercising the power he has as chief executive? Can we tell them to look elsewhere for assistance, perhaps in the area of arms sales?

Mr. Secretary, the working people of my district in Cincinnati and all over the Midwest and in fact all over the country are growing angrier by the day. They want their government, the government they pay for, to lend them a hand. The time for complacency is over.

Would you care to comment?

Secretary RICHARDSON. Congressman, I do really care about your constituents. This is an agonizing problem for all of us. Let me just talk about OPEC, because there are a lot of Members here that have a lot of negotiating experience. This is the International Relations Committee. We are always very firm with OPEC. When we started out in this effort, OPEC was not going to increase production. In March they went close to 2 million barrels per day. They were not going to increase production this last time and they are close to 800,000 or 900,000 barrels per day. What we say to OPEC is what the international community needs is stability. There is too much volatility. A good American economy is good for everybody. The developing world, Asia, Europe needs price stability and prices are too high.

Now, when I went out to those nations that you mentioned, it was very visible, and I was criticized on the one hand for being too visible and pressuring, and on the other hand for not being strong enough, and I think using some of the measures that Congressman Gilman and others have advocated. OPEC did increase production, so whatever actions we took worked.

Now, that is not sufficient. We have got some gasoline problems in the Midwest that I have outlined, gasoline supply and demand problems. There are problems relating to pipelines. There are problems related to refineries. There are problems related to low stocks, increased demand. And I think, Congressman, what we are looking at in your region is why is there such a high price differential on conventional and reformulated gasoline, while in some districts of some of your colleagues prices are substantially lower? I think we have to get at the facts.

I believe our policy of engagement with OPEC is working. Now, let me just tell you a little bit about OPEC, and you know this very well. There are some countries there in OPEC that we don't have strong relations with, Iraq, Iran, Libya. There are other countries that we have strong relations with, Saudi Arabia, Kuwait, Venezuela, Nigeria—I know Congresswoman McKinney has been there—Indonesia. OPEC operates by consensus, and I engage them, every minister, intensively. I did not travel this last time, but telephone incessantly, making our case, saying "keep an open mind," and we think the results were positive. They were modest, but positive.

Now, everybody here knows that you want to work with your friends in an institution like that where you have nations that don't want to increase production, that like the prices high, and what we are doing is trying to find ways that you balance your diplomatic efforts.

My point, Congressman, is I think our diplomatic efforts of quiet diplomacy, engaged diplomacy are working. There are other factors we need to deal with too. That doesn't mean we don't continue dealing with OPEC. It is better to engage them in a way that produces results, and we believe that we can have some in their September meeting. You know, playing it cool, working with them, we can continue the progress we have made.

Congressman, I think that in Cincinnati you were affected by that pipeline I mentioned, the Wolverine pipeline. You get conventional gasoline there, as I understand it. That pipeline problem was one of the reasons for this disruption.

Chairman GILMAN. The gentleman's time has expired.

Mr. CHABOT. If I could just respond, we don't have reformulated gas. We were affected by that pipeline.

Chairman GILMAN. Ms. Danner.

Ms. DANNER. Thank you, Mr. Chairman. Welcome, Mr. Secretary. I would like to follow through on two questions based on what my colleagues have talked about. You talked about "an anticipated increase in output from some of the non-OPEC countries." I am particularly interested in Russia, because we have talked about all we have done for the OPEC countries with regard to the Gulf War, but let's talk about the fact that we are sending literally tens of billions of dollars into Russia, according to the Congressional Research Service.

What particularly is Russia planning to do to increase their output? They certainly have the supply and availability.

Secretary RICHARDSON. Congresswoman, Russia has enormous resources. The problem with Russia is not that they don't want to do it, they have some infrastructure problems. We are trying to get Russia to engage in more production sharing agreements with American companies, with Western companies, so that they can increase their production. So their production capability is the problem. It is not a lack of will.

I think in the years ahead, you will see Russia concentrate extensively on improving that productive capacity.

Ms. DANNER. I might say in all the years that I have been traveling between Kansas City, Missouri, and Washington, D.C., for the first time ever gasoline prices are less expensive in Shirlington than they are in Kansas City, Missouri. That is certainly something that has impacted my constituents, and that is the increase in gasoline prices. My husband tells me that last week overnight the prices went down 15 cents per gallon. The interesting thing, and one of the things that I have inquired of the FTC, and I hope that in your conversations with them you will pursue it too, is the interesting fact that I think we are talking about some collusion between the gasoline companies within areas. For example, if one of my—well, one of the gasoline stations located in my district raises its price, every price goes up throughout that area exactly the same amount overnight. It is almost as though they have a telephone tree. It seems strange to me that with different base prices based on real estate, co-branding, all of those things, that they all happen to have the same price to charge for all of my motorists.

For those of us who live in the less populated part of the country, the Middle West, it is a surprise to me we are the ones with all the reformulated gasoline when the traffic here in the Washington area is certainly much more heavy than it is north of the river in Kansas City, Missouri.

Secretary RICHARDSON. Congresswoman, on that FTC investigation, they are going to be issuing subpoenas, and they expect to complete their action, at least the preliminary report, by the third week of July. Their objective is to find out the high price differential, as you mentioned, from reformulated and conventional and non-reformulated.

The price differential, 30 cents, 40 cents, has caused significant questions to be asked, and the oil companies have not adequately explained it.

Now, again, the issue of price fixing will be examined. That is the purpose of this.

Chairman GILMAN. The gentlelady's time has expired.

Mr. Salmon.

Mr. SALMON. Thank you, Secretary Richardson, it is good to have you here today. We are neighbors from the same part of the country. Actually I lived in New Mexico for 4 years, 4 of the best years of my life.

It is interesting, about 15 months ago my constituents and your former constituents, I guess they are always your constituents, were really getting gouged at the gas pumps. In Arizona the price of a gallon of gas went up about 35 percent over the course of 2 weeks, and 15 months ago I started calling for hearings. It fell on deaf ears, Mr. Chairman. Nobody even wanted to talk about it 15 months ago.

Then a strange thing happened, and I think you have seen the same phenomenon. When the Northeast started feeling like it was getting gouged, then there was a big hue and cry and everybody wanted to take a look at this thing. One of the interesting phenomena, what a difference a day makes.

But I really believe if we had been ahead of the curve 15 months ago and started these hearings back then when I started to call for these hearings, maybe we could be on top of this thing by now.

I found myself being very, very frustrated with the way that we all in government have handled this situation. A month or so ago, a couple months ago, the House passed a measure which I think would have been about as beneficial as a Hallmark card to send to the OPEC countries and tell them how dissatisfied we are with what is going on, because I don't really feel it had any teeth. But we had an opportunity to put some teeth in it. One of the ideas that I was planning on including, had the bill we passed really had some teeth, was to give the President the power of seizing the assets of those OPEC nations if we found out that price fixing was occurring.

Could I get your comments on that, and if that isn't something we could look at doing, is there anything else that we in the Congress can give the President so that he has more tools in his tool belt when it comes to dealing with these problems, because a lot of us really do believe in our hearts, even though we have not proven it yet, that there is some price fixing going on, and that there is some skullduggery going on with these OPEC nations.

So what can we do for you guys to give you more arsenal to deal with these problems that we perceive are happening?

Secretary RICHARDSON. Well, Congressman, let me first commend you, because you have been a leader on renewable energy, and that is very important. That is key to improving our energy security.

Secondly, you are also, like I was, from the Oil Patch, and we have some initiatives, the President does, to help marginal well tax credits, oil producers, some of the small oil producers. Even though prices are high now, it still has taken them a long time to recover from when prices were $10 a barrel. Thus, regions in your part of the world and my part of the world, were hurting, because energy is so important.

Congressman, I think the way you engage OPEC is through effective diplomacy. I believe we are doing that.

Now, we can't support the Chairman's bill of sanctions. The second bill, I don't know if that is the one you are referring to, the Justice Department and State Department are reviewing it. Is that Chairman Gilman's bill, the asset bill?

Mr. SALMON. It is the one we passed about 45 days ago, 30 to 45 days ago, and I believe it was just a resolution.

Secretary RICHARDSON. Congressman, I would say that we would oppose that bill, because we believe in engaging OPEC. And if you look at the record, for instance, Saudi Arabia has been forthcoming. They have been leaders in increasing production. Kuwait has also, and I think Chairman Gilman effectively made a case with Kuwait earlier and was helpful.

So there have been countries, Algeria is another country that has taken some surprising positive positions in increases in production. What we try to do with OPEC is engage them, convince them, make our arguments on economic grounds, not political grounds. It doesn't pay, I have found, to coerce or threaten, but to be forceful. As you know, a lot of OPEC countries were not happy when I made those visible trips and when I advocated very strongly for our position.

This last time we took a more low key approach. But it still involved a number of telephone calls and quiet visits that took place. That is how I think we should deal with OPEC. OPEC is a reality. They are going to be around. As a nation, we need to reduce our reliance on imported oil. I think that is message number one. This is where, together, in a bipartisan fashion, we can deal with renewable energy and those tax credits and the Home Heating Oil Reserve and helping domestic oil and gas production.

Chairman GILMAN. The gentleman's time has expired.

Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman. Let me also thank you, Mr. Secretary, for your forthright testimony and also for the success that you are having, though not complete success, but some success.

Let me just ask you a couple of things. In your opening statement, you did mention the fact that prices have dropped in some parts of the country. I don't believe you mentioned the West Coast. As you know, on the West Coast we have had huge high prices for a couple of years now.

Mr. Chairman, in fact I would like to insert in the record, I ask unanimous consent to put this GAO study on California gasoline price behavior.

Chairman GILMAN. What is the date of that?

Ms. LEE. The date is April 2000.

Chairman GILMAN. Without objection.

[The information referred to is in the appendix.]

Ms. LEE. Thank you, Mr. Chairman. But let me just ask you in terms of the discrepancies, in terms of prices in California and the West Coast versus the rest of the country, we know California is really the third largest consumer of gasoline in the world behind the United States and Japan. Gas prices in the Bay Area, Oakland, San Francisco in particular, are higher than any area in the State, and probably in the country. So now we are still dealing with this, with no real relief in sight.

Secondly, let me just ask you in terms of the explanation by the oil companies, have they actually explained to you a rationale for how they see the increase in prices, and do you see a correlation between their huge windfall profits and the soaring prices of gasoline and home heating oil?

Secretary RICHARDSON. Congresswoman, as you know, California has some particular features that probably occasion higher gasoline prices for consumers. Number one, there is higher State and local taxes, as you know, almost total taxes as much as 10 cents per gallon above the national average. This is in taxes.

Number two, product quality. In other words, it costs more to make reformulated gasoline in California than it does—5 to 8 cents per gallon more to produce, than conventional gasoline.

Thirdly, the Rocky Mountain region, there is some transportation problems, some logistical problems, that have taken place that prices in the region have been more independent than in other regions.

There has been some pipeline problems, specifically the shutdown of the Olympic pipeline that took place in June 1999 because some gasoline markets in Washington and Oregon were also affected. So California has those particular problems that we have been trying to address. I have been out there and we are trying to find ways to reduce that gasoline price. There has been a slight drop, but, again, we are monitoring it very closely.

Chairman GILMAN. The gentlelady's time has expired.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman. First of all, I want to say to my good friend Secretary Richardson, welcome. I remember our good times working on the Helsinki Commission together. I want him to know I have a great deal of respect for him.

Let me just say, I also think you are trying to do a very difficult process. But let me just raise an issue, because I am deeply concerned that the administration, while you are pushing hard in one area, may be deeply conflicted on the issue of gas prices and the impact on my constituents in New Jersey and in my district. I hear about it all the time. People are concerned, they are paying more, they don't like it, and it is impacting upon their lives.

We saw not so long ago a deep conflict on the issue of MFN,

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until gasoline costs $2.50 to $3.00 per gallon, comparable to prices in Europe and Japan.” That is on page 219 to 220.

As we all know, the Vice President wrote the promo for that and said, “The time for action is due and passed due. The Ehrlichs have written the prescription.” if that is not an endorsement of higher gasoline prices, I don’t know what is.

I would just ask you respectfully, Mr. Secretary, can you not understand why reasonable people, looking at the Vice President’s many uttered answers and writings on this, would not at least feel that the administration might be conflicted? You are pushing for lower prices, but there may be other people that say if it goes up, it goes up, it will be good for the environment. I will never forget how just his work was skewered by his writings. He had so much in written form that Members of the Senate could go back and look at it and say we don’t like this opinion, we don’t like that. I think we should be held accountable for what we say and for what we write. The Vice President has clearly made it clear that he would like to see higher prices as a way of mitigating consumption as an environmental issue.

So why is that not unreasonable for those of us who look at those writings to conclude there could be a problem here?

Secretary RICHARDSON. Well, first of all, the Congressman is, as usual, awfully skillful, and I admire your work on human rights and diplomacy, and et cetera.

The Vice President is making a speech today on his views on energy in Philadelphia, in fact, this morning. He may have already done so.

This is what we want to see. We want to see tax credits for fuel efficiency, for spurring domestic oil and gas industry, for renewable energy. We want to see Federal investment in domestic sources of energy.

I have not been necessarily in your district, Congressman, but I know the transportation problems, some of the truckers there. We need to really revive this partnership for a new generation of vehicles.

I know that the Vice President cares about how we can make automobiles and trucks more fuel efficient, and still ensure that Americans have a free choice in buying them. I just heard today that SUVs, their sale has been dramatically increasing in the last 2 weeks, more than ever, the most-sold automobile. We want to see a more creative policy on natural gas, on distributed generation systems.

Mr. SMITH. That is what I know the Vice President believes in.

Chairman GILMAN. The gentleman’s time has expired.

Mr. SMITH. The $3 deal, that is where we are heading.

Chairman GILMAN. Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman. I ask unanimous consent to revise and extend my remarks into the record.

Chairman GILMAN. Without objection.

Mr. CROWLEY. First of all, let me welcome you, Mr. Secretary. Again, the more things change, the more things seem to stay the same. We were here last March, as you mentioned earlier, to discuss the issue of home heating oil. I would point out for my colleagues from the west and southwest the issue of home heating oil was of greater importance, in my opinion, because it was life and death in the northeast. There was concern people would not have the ability to heat their homes. I just make that distinction.

I believe if our Chamber doesn't work together with the administration to solve some of the problems, we will be back here again next winter trying to figure out what we can do to reduce the cost of home heating oil as well.

Gas prices in my district have gone up over 75 cents since last summer. I represent a working class district in Queens and the Bronx in New York City. They are working people, working class people, many senior citizens who are living on fixed incomes and fixed budgets. They are paying their mortgages, setting aside funds for their kids' education, and also attempting to save a little bit to go on vacation this year. It seems as though they may have to save a bit more now in order to do that. Therefore, I implore the Secretary, once again, to open up the SPRO, to provide immediate relief to my constituents. We all know what happened during the Gulf War when then-President Bush opened up the SPRO, it reduced the price of oil by $10 a barrel overnight.

I am not going go into my comments about OPEC. I will leave those for the record as well. A lot has been stated already. But having stated that, I would like to address momentarily the partisan bickering that has taken place, not so much today. I have to commend my colleagues for not being as partisan today as they were last week, and not necessarily this House, but particularly the other chamber.

While I disagree with the administration on their policy regarding the opening of SPRO, my Republican colleagues are wrongly, I believe, blaming the President and this administration for every problem under the sun. This administration has advocated the creation of a home heating oil reserve for the northeast, but my Republican colleagues refuse to fund that. There was no funding in the Interior Appropriations bill for a North East reserve. Additionally, an amendment offered by Rep. Sanders to provide $10 million for this reserve, failed 193 to 195 in the House.

The administration continually worked for the reauthorization of SPRO, but again, the Republican Congress has blocked that as well. This President has worked for greater energy efficiency and alternative sources of power, all to see his work destroyed by the Republican majority in this House.

Lastly, this Congress has voted yesterday to cut the funding for the Federal Trade Commission, the people who investigate price fixing here in the United States, by $30 million from the President's request, and $10 million from last year's enacted appropriation. This Congress has been fiddling while Rome burns and then has called the President an arsonist.

Mr. Secretary, I just have one question, because my time is actually out. In your opinion, why is it that we as a Congress have not reauthorized SPRO at this point in time?

Secretary RICHARDSON. Well, Congressman, my most urgent plea here is that regardless of anyone's position on whether we use the Strategic Petroleum Reserve or not, and there are arguments on both sides, we have hesitated to use it because the law says it should be an emergency supply disruption and not a price problem. But ultimately the President makes those decisions.

We need the full authority to use the Strategic Petroleum Reserve, and we don't have it right now. We have limited use of it. As I mentioned earlier, I used it last week with a dry dock problem in Louisiana, and basically 500,000 barrels of oil were exchanged with some energy companies that dealt with the disruption. That was a swap.

But we need that full authority. I am not going to ascribe any motives. I think there was some dispute because in the House, the home heating oil reserve was attached to it. In the Senate it was clean. There was some stripper well provision that I believe was in the House that was added that, quite frankly, we didn't think was that bad.

My main point, Congressman, is we just need this SPRO authority passed, and the sooner you can do it, the better. I don't want to ascribe any motives, but the fact it is not there hampers our ability to deal with the potential problem.

Chairman GILMAN. The gentleman's time has expired.

Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman. Thank you Mr. Richardson. First, following up on Mr. Smith's question, I don't think that we got a response on whether Vice President Gore has abandoned his commitment for higher gas prices in order to save the environment. I would like to get an answer to that. But I wanted to ask you also about the dismantling of the OPEC cartel, Mr. Secretary. With real oil prices at their highest levels since 1985, is the administration doing anything to put into place a long-range strategy for the dismantling of the OPEC cartel?

The inability of OPEC to predict world demand for oil before and after the Asian financial crisis and its single-minded focus on the importance of rising demand for gasoline in the U.S. has, yet again, clearly demonstrated that it cannot fulfill the purpose of this organization without damaging the interests of the consumer countries, such as us here in the United States.

So please describe in detail, if you could, the efforts of the administration to show that its demand projections were flawed and its quota system was harmful to the global economy. Contrary to your statement, Mr. Secretary, OPEC has, I think, consistently failed to bring stability to the market. The Saudi oil minister, as you know, has admitted that OPEC was caught flat-footed by the revival of the Asian economy following the economic downturn in that region in 1998, and he has backpedaled on his earlier claims that demand for gasoline in the U.S. was the key factor in driving prices up, and OPEC, in short, is not capable of engineering a soft landing for oil prices.

So if you could address those concerns, beginning with Vice President Gore, the dismantling of the OPEC cartel, and OPEC's commitment for stability.

Secretary RICHARDSON. Thank you for your nice opening words.

Congresswoman, let me start with OPEC and then I will deal with the second issue. I remember going to Saudi Arabia when prices were $10 a barrel and there was great concern in Saudi Arabia, there was great concern in America's oil patch, in New Mexico and Texas, and in California and Arizona and many other States, Louisiana, because our domestic oil and gas industry was hurting.

Our policy has been to say that $10 is too low, $30 is too high. It is now over $30, $31, I think, and we are saying it is too high.

Now, given that, what has been our policy with OPEC? Our policy with OPEC has been to forcefully engage it. When they had the production cuts, we expressed strong concerns. We are against artificially set prices. We think the market should dictate.

Now, the last two decisions OPEC has made to increase production we think is good for us and good for the world economy. We have advocated that. Our preference, Congresswoman, and you have been very successful in this arena too, is to forcefully engage them, to explain our position, not to coerce and pressure. And I believe we have been getting solid results.

There are other factors: increased demand, the low stocks, the low stocks of gasoline, and crude oil that exist, pipeline and refinery problems, reformulated gasoline. All of these factors have contributed to the spike at a time when after OPEC took those decisions, you recall prices started going down.

Now, on the second question, I have never read that book of the Vice President's. I can tell you that he wants to see an energy policy where there is a balance, where there is a balance for renewable energy, where there is a balance for economic growth. You know, he will outline his policy today. But, as I mentioned before, he has been very——

Ms. ROS-LEHTINEN. With all respect, the question had to do with the Vice President's commitment for advocating in favor of higher gas prices in order to bring a more liveable future for our generation?

Chairman GILMAN. The gentlelady's time has expired. The Secretary has given us 10 additional minutes, and we tried to make good use for those who have not been called on.

Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. I want to thank the Secretary, also. Let me just say maybe something that might not be as popular to say, but I think we just need to be mindful and always believe in counting our blessings. Though we are going through a crisis here in America right now with reference to oil and gas prices, still, as I was walking over here with my intern, she mentioned to me, you know, aren't we still getting gas and oil cheaper than anyplace else in the world, and that is probably true, and we should count our blessings for that. But it does not mean that we should be easy and take it easy, and there is enough blame to go around with reference to the crisis we are currently in.

Clearly, I agree with Mr. Brady, for example, whereas there is blame on the consumer's part. We have not been smart consumers. There is blame on the administration, there is blame on Congress. And we can sit here until we are blue in the face, blaming one another and pointing fingers at one another, and not resolving an issue here of trying to make sure that we reduce the oil and heating prices.

I want to thank you, Mr. Secretary, for rising above the fray. I mean, you have been attacked personally and politically for a long period of time, but yet, as I sat here and listened to you, you still continue to want to work in a bipartisan manner, trying to work together so that we can make sure that we solve some of the problems that the American people are concerned about. They are not concerned whether or not it is a Democratic or Republican administration; they are concerned about someone working to resolve some of the issues that they have, that is confronting them now with the oil and the heating prices.

Particularly for those of us who live in the northeast, it is going to be a matter of life and death for some of them, making the decision of whether or not they can eat or whether they have to have enough oil so they can have heating.

Let me ask this question then, and I wanted to pick up on something Mr. Royce said. I have heard some, I think, meaningful suggestions and recommendations coming from both sides of the aisle here. But something that Mr. Royce had talked about with the increase of production of oil in Nigeria, but not only in Nigeria, but in all of West Africa. What can we do, or what are we doing to look at increasing the oil production in West Africa, and how would that affect us and how would that help us with some of the crises that we have here in America?

Secretary RICHARDSON. Congressman, I think Congressman Royce knows Africa very well, since he chairs that Subcommittee. We think Nigeria has enormous potential for more oil and gas production, and we are working with them to bring more technology, to bring more American investment. We have got substantial investment there. They have had some infrastructure problems, as you know, because of some of the political issues that have been affected there. There was a lot of corruption; instead of revenues coming in from energy production for other capacities, they went elsewhere.

What we want to do is develop—we have a three-pronged strategy: Develop oil and gas resources in three key regions; in Africa, in Latin America, and in the Caspian. We think that we bring our leadership in that area, especially in Nigeria, where there is a pro-market, pro-democracy government, that is doing the best it can to get the economy back and bring some true democracy, and is having some good effects, we are very bullish about Nigeria. The problem still is their infrastructure, their pipelines.

We also support a West Africa gas pipeline. We have been very involved in spurring the production of that with both, some energy companies and some of the governments there in Chad and Nigeria and other nations that are key to that.

So we think that Africa is a real untapped resource, not just for itself, but for our country. I thank you for your very constructive comments.

Chairman GILMAN. Thank you, Mr. Meeks.

Mr. Payne.

Mr. PAYNE. Thank you very much. It is good to see you, Secretary. I want to say, once again, we worked together in Congress, your work on getting hostages freed in dangerous places, your work with the United Nations, our trip together to the democratic Republic of Congo, all of these things, and, of course, your work here as Secretary of Energy.

When I was listening to the Senate last week, one thing for sure, they are certainly bipartisan—they are not very partisan, they are equal-opportunity bashers. I don't know if any one side was any worse than the other. But your head was bloodied, but it was unbowed. That is the Secretary I knew well.

I would just like to say that I think the work that you have done bringing the African energy ministers to the United States some time ago perhaps had something to do with Nigeria, saying we want to pump more oil, because we know we have a friend in our Energy Secretary. So I would like to compliment you on a number of the initiatives. I couldn't agree more with Mr. Brady, you know, we keep pointing to everyone else and looking for the enemy, and the enemy is us. Housing prices go up, so we are not bringing in the National Homebuilders Association and bashing them. It has gone up because the demand is exceeding the supply. The same way in my State of New Jersey, it just is common sense, the cost of higher education is going through the roof. Why? Because the demand is outstripping the supply. Health care, it is the same thing.

So I don't like it either. I don't like our prices to go up, but I can't understand why Americans and our political leaders here are so surprised that somebody has got something that they can—that is the American way, they got something you want, and they are going to shoot the price up to maximize the profit.

I think what we need to do is stop being so dependent. I think what we need to do is stop buying all of those sports vehicles, as you mentioned. Ever since the crisis got here, the jump has gone through the roof. So we are blaming other people. I think that we need to have alternative energy sources, we need to talk about ways to reduce the consumption of these gas guzzlers that have been reintroduced into our country, and I believe that what we need to do is to start looking at ourselves to see how we can come about.

Let me just ask a quick question. There were a number of initiatives that were introduced that were not passed by the Congress. In your opinion, if some of these initiatives that were mentioned earlier, initiatives made by the administration but the Republican-controlled Congress felt that we shouldn't spend the money that way, do you think that we should re-visit those initiatives, and perhaps that could be an alternative plan of trying to become less energy dependent and more frugal in the manner in which we guzzle up energy?

Mr. Secretary, maybe you could respond to that.

Secretary RICHARDSON. Congressman, we need the following and we hope the Congress acts in a bipartisan fashion.

$4 billion in tax incentives for fuel efficiency; tax incentives in the domestic oil industry; and renewable energy.

Secondly, we need to pass the Strategic Petroleum Reserve Authorization, the full power. This is critically important.

We need also to pass what is called electricity restructuring legislation that is before the Commerce Committee. There are brownouts and blackouts in the country. I have been going around the country warning that our grid is hurting, that we need to modernize our grid. I was in your district, your State. We need to do that. There are some outage problems, possibly soon, that are taking place in the west coast and in the northeast that we are concerned about. We need to get that program restored for the partnership for a new generation of vehicles for more fuel-efficient vehicles. We need domestic energy funds for more investment in solar, wind and biomass and bioenergy. We think it is important to fund the weatherization program to its full capacity, the low income energy assistance.

We would like to also look at a number of other initiatives that the President has put forth that are emergency measures, the home heating oil reserve for the northeast. We think that needs to happen.

My main message, Congressman, is we need to do this together. We need to stop blaming each other and move forward and find ways that we can act on some of these measures, because you can't have energy policy problems blamed on one factor, OPEC or whatever. There is a number of factors that we have to play with. One that you have been very aggressive and positive on is developing countries having shared market partnerships with the Nigerias, with the Congos of the world, and we have been trying to do that.

Chairman GILMAN. The gentleman's time has expired.

Mr. Brady.

Mr. BRADY. Mr. Secretary, is Governor Bush responsible for our current high fuel prices?

Secretary RICHARDSON. George Bush? No.

Mr. BRADY. Governor Bush isn't responsible for our current high fuel prices, and I think we can agree that some of the comments earlier today by my Democratic colleagues can be dismissed as just partisan inaccuracies. You may not describe it that way, but I think that is the point.

It is true that oil prices have gone up, and we are working together to bring them down, but it is important to remember that rent has increased 10 times the amount that fuel has over the last 20 years, dental service, things we all need for our kids, 20 times, but we don't launch investigations into apartment owners or dentists. The fact of the matter is as George Foreman, world champion boxer, one of my constituents once said, you have to do your own road work. In this case, I agree with the gentleman, Mr. Payne, and others, who recognize that we have to take responsibility for our own energy needs.

We talk about Africa and Caspian and Latin America, but why aren't we doing more to significantly increase the responsibility America takes for our energy needs? Is it the conflict between our environmental goals and our energy goals? Is it the unwillingness to stand up to special interests and say we have to have a long-term energy policy that allows us to be more independent? What is it going to take to get a responsible energy policy that all of America is engaged in?

Secretary RICHARDSON. Well, Congressman, first of all, it is going to have to be, I think, a bipartisan effort, because a lot of these measures cannot be approved without the support from your side and our side.

I think that is number one.

Number two, I think we have to stop blaming each other. I mentioned that I don't believe Governor Bush is to blame. Neither is our administration or the Vice President. I think our energy policy has been laid out, it has had successes, and right now our biggest challenge is high gasoline prices. How do we achieve that?

I have given you our measure. I think a key component is we cannot forget our domestic producers. We cannot forget not just oil and gas, we have got to help our own coal people, we have got to help our other industries that are fossil fuels, renewable energy. We have to invest. But in particular, what we have is a balanced package, a balanced package in fuel efficiency, in tax incentives for a number of measures to make homes and buildings and automobiles more fuel efficient, but also an effort to help our own domestic production with marginal well assistance and other factors, which I think is essential. We need to get these approved and passed.

Mr. BRADY. My only correction to that, I agree with what you said, is that you, in your role as Secretary of Energy, our President and Vice President, have been at the helm for 7½ years. It is fair to ask how did we get here, what are we going to do to get out? It is not a factor of blaming, it is a way of looking to see what we ought not do in the future so we don't end up here with people in tough situations another 8 years from today.

Mr. Secretary, I appreciate the efforts you are making on our domestic production and our smaller independent producers.

Chairman GILMAN. The gentleman's time has expired.

Mr. Rothman.

Mr. ROTHMAN. Mr. Secretary, a pleasure to see you again. I certainly agree with you that we need to work as a Congress with the administration, Democrat and Republican, in reducing our reliance on imported oil and developing alternative sources of energy. I hope we can, the Congress, my Republican friends, along with my Democratic colleagues, can pass the host of initiatives that this administration has put before the Congress, pleading with Congress to pass, to help address the oil crisis, the price crisis in America.

I hope in particular being a Congressman from New Jersey, a region also suffering very high gasoline prices and who suffered with the dangerously high home heating oil prices of last winter, that we do pass the Strategic Petroleum Reserve Reauthorization and create, as the Clinton administration is pleading for Congress to create, the home heating oil reserve.

But I cannot avoid the feeling that there is extraordinary price gouging going on by the oil producing nations of the world and the oil companies located here in America. I believe, if you examine all of the figures of increased oil production that have occurred in the last 12 months and that are occurring now, the increase in oil production, we are not seeing a commensurate drop in price. It is inescapable to me the certainty that there is price gouging going on by the oil companies and these oil producing nations.

Now, we introduced some legislation here in Congress recently to prevent arms sales to those oil producing nations that were price gouging. We certainly tried to get it out of the Committee. I want to know what we can do about these oil companies that are price gouging. You can say this is the marketplace and they have got a commodity that people want and they can set their own price. Well, that is true. But this government has the ability to create laws that can get the attention of these oil companies so that they understand that they cannot double and triple the price of their product whenever they feel like it, even if there is no—just to create double and triple-size profits when the American consumer is suffering.

Enough is enough, oil companies and the United States Congress, in conjunction with this administration, I believe, has the tools to send a clear message. I am asking you, Mr. Secretary, what can we do to let the oil companies know that we will not forget their greed, the greed that is causing them to gouge prices on our consumers at the very height of our oil demands of this summer?

Secretary RICHARDSON. Congressman, we are investigating the oil companies for potential price fixing. The Federal Trade Commission will conclude in late July. There are unexplained price differentials in the Midwest, unaccounted for price spikes, conventional versus reformulated gasoline, of as much as 30 to 40 cents.

There are other factors that are involved. You mentioned the production supply. There is increased demand, unusually high demand, low stocks. There has been transportation problems. There has been refinery problems. There has been pipeline problems. There has been reformulated gasoline in some cases, the differential is slight, 2 to 3 cents, maybe a little more.

So, that doesn't account for 30 cents. So I think the burden is on the oil companies to explain why this is happening. This is why the FTC is investigating.

Chairman GILMAN. The gentleman's time has expired.

Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much. Again, Bill, welcome, and just let me note there has been no one on this Committee and this hearing that has raised any objections to your job, and no one has used you as a punching bag. We respect you, we like you, you are our friends and former colleague, but we do have some fundamental questions about administration policy. Let me just say that when you talk about responsible policy, and what we see from this side is that the Clinton-Gore administration, it seems to us, has not had a responsible energy policy, and perhaps this is due, and we can't overlook this possibility, to the fact that it is being unduly influenced by looney environmental ideas that have been espoused by the Vice President for decades. The Vice President has been the number one advocate of higher gas prices in order to achieve his environmental goals for decades.

Now, are you or are you not here telling us that the Vice President has or has not abandoned his commitment to dramatically raising the price of gasoline in America?

Secretary RICHARDSON. Congressman, the Vice President does not favor higher gasoline prices for consumers. Let me just state that.

Mr. ROHRABACHER. He has always advocated that. That is not even debatable.

Secretary RICHARDSON. That is not the case. He has advocated—he wants to see tax credits for families to purchase fuel efficient cars.

Mr. ROHRABACHER. No, he has advocated in his writing, he has advocated in speeches, that Americans, that we are at fault because we want to use our cars too much, because the price of gas is too low. Does that mean the administration has backed off of its commitment to higher gas prices through the Kyoto agreement? Has the administration backed off from that?

Secretary RICHARDSON. Congressman, we have never been for that. Let me just tell you what the Vice President wants to do. You mentioned automobiles. He is the author, it is through him that the big 3 and the Department of Energy and other agencies are trying to make SUVs more fuel efficient, 40 miles per gallon, 80 miles per gallon. That is his objective. He believes there should be freedom of choice for the American people in any vehicle they purchase.

Mr. ROHRABACHER. Are you trying to tell us today that he never advocated higher prices for gasoline——

Secretary RICHARDSON. Yes.

Mr. ROHRABACHER [continuing]. As a means of achieving his environmental goals?

Secretary RICHARDSON. Yes.

Mr. ROHRABACHER. That goes against everything we believe. We are just mistaken.

Chairman GILMAN. Mr. Rohrabacher, give the witness an opportunity to respond.

Secretary RICHARDSON. Congressman, there are a number of initiatives that we need that require legislation and appropriations. I have pointed them out. We need to do this together. I think that just trying to engage in the dialogue you and I have had, even though we are friends, and I know you have to establish your position, I don't think it is productive. I think what we need to do is there are some emergency measures that we need to deal with this problem. I have outlined those. There are a number of tax credits that are needed. There are a number of initiatives that I think many on your side could support, like the domestic oil and gas incentives. We need to just move forward.

Mr. ROHRABACHER. Thank you.

Chairman GILMAN. The gentleman's time has expired.

Ms. McKinney.

Ms. MCKINNEY. Thank you, Mr. Chairman. First of all, I would like to thank you for allowing those of us who have stayed throughout the entire hearing to get a second round, and I would like to thank the Secretary for staying here to respond to all of our questions.

I am going to change the subject a little bit, but I want to bring something that I feel is very, very important to your attention that I am sure you are not aware of. It has to deal with the situation of African-American workers at Savannah River site. I just want to list some of the things that are alleged to have taken place there.

There is a work area where African Americans primarily work. That area is referred to as "Coonsville." nooses have been placed on African Americans' work stations, and electricians brought a noose to the site and demonstrated the historical value of a noose. The "N" word is reportedly regularly used by both management and staff. African Americans at the Savannah River site have 1.7 to 1.8 times the exposure to radiation than their white counterparts. African American employees feel that management places African Americans in the work site to get the radiation.

Twenty percent of the total workforce at Savannah River site is African American, yet 40 percent of the staff in the areas of exposure to radiation are African American. Two percent of the upper management at Westinghouse are African Americans. There has never been an African American vice president at Savannah River site. A machine named "the manipulator" is referred to as the slave master.

Finally, I would just like to say I had the president of Westinghouse, Savannah River site, in my congressional office, Mr. Buggy, and while there, Mr. Buggy actually used the "N" word in my presence, in my office. That is the kind of leadership that exists at Savannah River site Westinghouse under contract by DOE.

Now, I also have a letter from Maryanne Sullivan, general counsel, dated May 15, 2000, from the Department of Energy, where she says that litigation expenses are considered to be costs of doing business.

My question to you, Mr. Secretary, is why should the U.S. taxpayers foot the bill for litigation expenses against poor employees who have already been victimized by that kind of management and that kind of an environment? And why should that be condoned by the Department of Energy?

Secretary RICHARDSON. Congresswoman, I will get back to you on these issues. Let me just say that after that 60 Minutes report came out, and I think you are aware of that, I sent a team down there to look at some of those allegations. I also sent my ombudsman, somebody who I appointed in the Department to find problems of racial profiling, we have had some problems with Asian Americans in the suspect case at Los Alamos, and I wanted to send a message that we don't tolerate racial profiling.

I will have somebody come see you, or I will come to see you myself, to look into some of these issues that you have raised with me.

Chairman GILMAN. The gentlelady's time has expired.

Ms. MCKINNEY. Thank you, Mr. Secretary.

Chairman GILMAN. Our last intervenor will be Mr. Royce. I want to advise my colleagues that Senator Metzenbaum has been patiently awaiting to testify. He will follow Mr. Richardson.

Secretary RICHARDSON. I would also like 3 minutes to explain, you asked that question about that GAO report.

Chairman GILMAN. We welcome your comments.

Secretary RICHARDSON. At the end, if I could do that.

Chairman GILMAN. Thank you.

Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman. Mr. Secretary, I want to say I am glad that you recognize the potential for West African oil protection, and I mentioned also the Chad Cameroon gas pipeline about to get underway.

I think we should be pressuring OPEC, as I said earlier, to increase production, and you have told us today about some of the things you have worked on in the past to do that.

My question is, what does a Secretary of Energy bring to that task that the Secretary of State or the Secretary of Defense could not do with more leverage? I think Cabinet colleagues of yours would bring more leverage to the table, and I am reminded of a conversation I had once with Casper Weinberger, the former Secretary of Defense, and he said, frankly, the security issue over our nuclear secrets should be handled by the Department of Defense, as it was in the past before the creation of the Department of Energy.

He said the culture, the culture in the Department of Energy, can't be changed. The Department of Defense will safeguard these secrets, and that is why he backed a measure, a piece of legislation I introduced in the past.

The reason I am raising these points is because in many ways, in my view, you have been saddled with a responsibility through the creation of a separate Cabinet-level position of energy that, in my view, should be done by other sectors. The Department of Defense, I believe, should be handling the security, as it once did. The issue of leveraging OPEC, I think, frankly, the Department of Defense or the Department of State, no, our Secretary of State, probably could do that with more leverage.

This goes to the issue that you have been saddled with the responsibility here that is very difficult. The concept that was dreamed up that we would develop these alternative energy sources with subsidies, rather than go through the market. I am reminded of the oil shale project where we spent $1 billion and never developed a drop of oil out of that. I think some of it goes to the original way in which we invented this separate Cabinet-level position, and in many ways it is unfortunate.

I think in many ways it is an outdated and duplicative boondoggle, as many critics have charged. Every year we get reports about inefficiency, corporate welfare, failure to respond to high gas prices and so forth, and I am not sure this, in fact, can be handled the way we have created this agency.

I wanted to give you a chance to respond to those critics who raised these points.

Secretary RICHARDSON. Congressman, first of all, while I have shouldered the principal discussions with OPEC, and have traveled and have phoned these ministers and worked them very hard, and in fact, have good working relationships, which I think is key, I have not been the only actor. The Secretary of State has made phone calls and visits that have been extremely helpful. The President has made calls.

I have had the principal responsibility, because energy, this is a task that other energy secretaries' discussions with OPEC have had.

I think you are absolutely right. How do you maximize the full leverage of the United States, the full economic-political relationships. And I believe we have done that, not just through my visits, but through other interventions by others, I can assure you, and I can go into more detail.

On the issue of energy and the nuclear weapons, civilian agencies have always handled our nuclear weapons. What we are doing right now, Congressman, is with our nuclear weapons complex, a semiautonomous agency headed by General Gordon, who I met with yesterday, deputy director of CIA, that basically streamlines a lot of the nuclear weapons responsibility into this semiautonomous entity that reports to me, but basically has its own structure, and that is what we are looking at now. I am giving it my full support.

But I would be very pleased, especially to work with you on some of the Africa issues you mentioned, and go into more detail as to how we have interacted with OPEC.

Chairman GILMAN. The gentleman's time has expired. Mr. Secretary, we welcome your comments on the GAO report.

Secretary RICHARDSON. Mr. Chairman, I would like to have Ed Curran join me here. He is the director of our counterintelligence program.

Chairman GILMAN. Mr. Curran.

Secretary RICHARDSON. Mr. Chairman, you mentioned, even though this report covered a period of time from 1995 to 1998, where I was not Secretary of Energy, nonetheless, I think the report shows the success of our program. As you know, we cooperated extensively with the GAO, provided the data on some of these counterintelligence issues. Ed Curran is the best counterintelligence person we have in our government. He broke the Ames case, the Aldrich case, who knows how many others. But he has now been the director of counterintelligence in the Department of Energy, and I might add too that we have the most effective brief and pre-brief and post-brief programs we believe of any agency in government. I think it is reflected in this report, which we believe shows our commitment to security and to protecting our scientists.

Let me just say that even the GAO said there is no evidence that any espionage was obtained. So I want to State that for the record. I would like to defer to Mr. Curran.

STATEMENT OF EDWARD J. CURRAN, DIRECTOR OF COUNTERINTELLIGENCE, DEPARTMENT OF ENERGY

Mr. CURRAN. Thank you, Mr. Secretary.

I would just like to explain it in a very short period.

Chairman GILMAN. Mr. Curran, identify yourself for the record.

Mr. CURRAN. Edward J. Curran, director of counterintelligence for the Department of Energy. I am a current FBI employee detailed over to the Department by the FBI 2½ years ago as a result of the Presidential Decision Directive 61 signed by President Clinton in February 1998. My assignment was, first of all, the review of the counterintelligence program within DOE, prepare a 90-day study with recommendations, and improve the counterintelligence program.

Chairman GILMAN. Thank you, Mr. Curran. Please proceed.

Mr. CURRAN. I think it is important to state that after our findings almost 2½ years ago as a result of PDD 61, there were 46 recommendations came out of my office to the Secretary. I am not going to go over all those recommendations, but basically what we found 2½ years ago is the counterintelligence program at the Department of Energy was almost nonexistent. It didn't even meet minimal standards. We said that and we said we have a lot of things to do here. The 48 recommendations were very controversial within the Department and the laboratories. There is a great deal of resistance to any of those recommendations.

We broke them down into tier recommendations, tier 1, 2 and 3. The 1's, tier 1, was those recommendations that we need to do right now to fix the problem at DOE. One of those recommendations was to enhance our pre-brief and debriefing programs of our scientists who are traveling overseas, and we acknowledged 2 years ago they are targets of foreign intelligence service, just like anybody else in the government, DOD or other government agencies, including private industry.

The results of this GAO study we worked very closely with them in the past 8 months while they were preparing this. We gave them complete access to our database that we put the information on our pre-briefings. These were pre-briefings that the Secretary has approved in November. Despite the resistance, he approved all 48 of these recommendations.

We considered pre-briefs of our scientists, which was basically nonexistent before, as a critical area to prepare our scientists to interface with their counterparts overseas, especially those from sensitive countries.

Today, 2½ years later, rather than having a counterintelligence program that meets minimum standards, I believe it is equal to all counterintelligence agencies within the government and better than most, and basically it is because this man sitting next to me had the courage to go forth and approve the recommendations that we made despite tremendous resistance.

The only difference we had with the GAO study, and it is not a major study, is that they say we are not spending enough time looking at the threat from nonsensitive countries. We agree totally that all our scientists are at risk, no matter where they are outside the United States, whether it be because of economic espionage, proprietary information. What we have to first address, though, are those countries from the sensitive countries that have a track record, have been identified as activities by those intelligence services that threaten immediately our national security.

Our scientists get pre-briefs often, personal briefings, before they go overseas. We gather this type of information. We know what countries do what to us, and it is a defensive mechanism that whether we do this or not, that targeting is going to take place overseas. We feel that to have a structured program to prepare these people to go over is of tremendous interest to counterintelligence. If I could just read from the GAO study one paragraph, which was unfortunately leaked to the news media last week, and I think some elements in the news media believed that anything that is leaked is critical to the Department of Energy. I think you need to read it thoroughly, though, to see this is not a critical report.

Page 3 of the GAO study, it says, DOE and its laboratories have instituted several national security controls over official foreign travel by laboratory employees. They include threat assessment and analysis provided by DOE's office of counterintelligence, security and counterintelligence awareness training, an a review and approval process for foreign travel requests, face-to-face or written pre-travel briefings, classification review of publications and presentations, and face-to-face or written post-travel debriefings and trip reports prepared by the traveller. All official contractor travel is subject to these controls.

I think in whole, we agree with the GAO study.

Chairman GILMAN. Mr. Curran, did you have any report of any important secure information being given by any of the lab scientists when they were overseas?

Mr. CURRAN. No. What we try to do is if you do these pre-briefings early, we can come up with determinations whether a particular employee is being targeted or singled out, whether because of the science he happens to be working on, or whether he may show some vulnerabilities. Once we determine that, if we consider an employee to be in harm's way or be unusually targeted, we will take him out of that country.

Chairman GILMAN. Do you properly brief your scientists before they go overseas?

Mr. CURRAN. Every scientist within DOE that travels to a foreign country is required to have a pre-brief with a counterintelligence officer. Every employee going overseas is required by the Secretary to have at least an annual briefing on awareness training and counterintelligence security issues.

Chairman GILMAN. Are those pretty thorough briefings?

Mr. CURRAN. Yes, they are, sir. This is where we get this type of information. We have to have the confidence in the scientists who are willing to comfort and share this with us. The only thing we said to DOE is you cannot identify these employees or attribute it to a certain laboratory. If they don't have the confidence to come and share this information with us, we are not going to get it.

Chairman GILMAN. Do any of my colleagues want to inquire about this?

Mr. Payne?

Mr. PAYNE. I would just like to thank the gentleman for bringing that information to our attention, making it public here. We certainly will—I have not taken the time, it hasn't been brought to my attention the study, but I certainly will have staff and I will certainly look into the recommendations. But I thank you for bringing this to light.

Chairman GILMAN. Let me state that we will have a further hearing with regard to the security situation at a later date and will ask Mr. Richardson and you to attend.

Mr. Sherman, a very brief statement, because the Secretary is beyond his time limit.

Mr. SHERMAN. I thank the Secretary for his indulgence. We are being told that oil prices would be lower if we just got rid of all environmental concerns, drilled everywhere, eliminated any attempt to reduce air pollution, and nothing could be further from the truth. I want to thank the administration and the Secretary for standing firm on environmental concerns.

We should, instead, focus on the fact that we went to war in the Gulf, we could have experienced thousands of casualties, and we had an opportunity to turn to Saudi Arabia and to turn to Kuwait and say in return for your continued existence as countries, we insist that you leave OPEC and produce oil at a reasonable economic rate. Instead, we returned Kuwait to its Sultan or its Emir, and, let's face it, Saudi Arabia would not be an independent state today had we not acted. Without asking for a single concession for the American consumer or motorist, and in doing so, we not only failed to overthrow Saddam Hussein, we failed to, at that point, and that was, I think, the only point we could have, to break OPEC.

Those who blame the environmentalists should recognize that if it wasn't for environmentalist concerns, we would be getting 12 miles a gallon in our cars and 8 miles a gallon or 6 miles a gallon in our trucks and SUVs, and think that we need to go further if we want to break OPEC toward fuel efficiency standards and toward fuel efficiency research.

We are told that America is addicted to foreign oil, so the solution is huge subsidies for big producers of oil domestically. Yet we, as motorists, pay the same price, whether we are buying oil from Saudi Arabia or from Texas, domestically produced oil sells for no less. So when OPEC forces the price of oil up, the producers in Texas do just as well as those in Kuwait, and yet we are told we are supposed to give more subsidies, more tax breaks, to those who are already getting huge prices for their oil.

The key is not foreign oil versus domestic oil, it is just total world supply of oil.

Focusing on that, Mr. Secretary, I have a number of questions, and I don't know if you will choose to answer them here, where I know your time is limited, or furnish these answers for the record. The first——

Chairman GILMAN. Mr. Sherman, the gentleman's time has expired. We have had to cut back on time so that we could wind up. I am going to suggest you submit your questions in writing.

Mr. SHERMAN. Mr. Chairman, if I could just have 30 seconds.

Chairman GILMAN. Without objection.

Mr. SHERMAN. You commented earlier that Mexico is producing another 50,000 barrels of oil per day, I believe was the figure. I would like to know how much oil could Mexico produce beyond what is being produced now if they had over the last several years and currently been producing oil as quickly as they could in as large a quantity as they could instead of cooperating with OPEC?

How much oil do we save each year because of our fleet deficiency CAFE standards?

Finally, what is the total additional money flowing to domestic oil producers as a result of the recent OPEC increase in prices?

Chairman GILMAN. The time of the gentleman has expired. One question will be responded to.

Mr. Secretary.

Secretary RICHARDSON. The statistics, Congressman, is Mexico, in the March OPEC flow, as a non-OPEC nation, increased their production by 150,000 barrels per day. In this last meeting in June, they agreed to 75,000 per day more. We believe that they are at full capacity, and in these discussions Mexico has been helpful. I would only point out one thing, Congressman, and that is we have had a period of unprecedented economic growth in this country. The economy has grown enormously in the last 7 years, and there has been a dramatic decrease in sulfur emissions. So I think what we are trying to achieve is a balance between economic growth and environmental goals which you espoused.

Chairman GILMAN. Thank you, Mr. Secretary. If the gentleman wants to submit any statements for the Secretary, I am sure he will be pleased to respond.

We thank you for being patient for overextending your time, and this portion of the hearing is completed.

Secretary RICHARDSON. Thank you, Mr. Chairman.

Chairman GILMAN. Now we are pleased to hear from former Senator Howard Metzenbaum, who has been very patient. Howard Metzenbaum is the Chairman of the Consumer Federation of America. He is more widely, known of, course as a former Democratic Senator from Ohio, where he served for three terms ending in 1995. He was the Chairman of the Antitrust Subcommittee of the Senate Judiciary Committee when he served in the Senate.

A native of Cleveland, Ohio, he served as a State legislator, a businessman, and a lawyer. He was the author of the Age Discrimination Act of 1988 and the Civil Rights Act of 1991.

Howard Metzenbaum serves on a myriad of boards and as director of charitable institutions across our Nation. A common word applied to Senator Metzenbaum was scrappy. We are delighted to have you here today, Senator.

STATEMENT OF THE HONORABLE HOWARD METZENBAUM, CHAIRMAN OF THE CONSUMER FEDERATION OF AMERICA, FORMER SENATOR FROM OHIO

Mr. METZENBAUM. Thank you very much, Mr. Chairman.

Chairman GILMAN. Would you please press your button on the mike.

Mr. METZENBAUM. On the mike. Just the middle portion there?

Chairman GILMAN. Just the middle portion there.

Mr. METZENBAUM. Is it working?

Chairman GILMAN. Yes, indeed.

Mr. METZENBAUM. Thank you. Thank you, Mr. Chairman. I know the hour is late, and I will not be lengthy. It is a privilege to appear before your Committee, and I am particularly pleased to see Mr. Payne sitting as Ranking Member today. I remember him well from a trip that we made together.

I represent the Consumer Federation of America, an organization consisting of 240 separate organizations representing in excess of 50 million people. I am a non-paid chairman of the Consumer Federation of America, and when I left the Senate, I thought that I wanted to be able to continue my advocacy position in connection with certain issues, and this has given me an opportunity to do so.

I am concerned about the oil situation in this country, as I was concerned when I was in the Senate. I am concerned that we are not releasing oil from the Strategic Petroleum Reserve when we could and should be doing just that.

Now, the Strategic Petroleum Reserve was established about 25 years ago, and it provided that when there was a serious disruption of oil supply, there could be a release of oil from the Strategic Petroleum Reserve. Realistically speaking, there has not been a serious disruption.

But the fact is that the President does have the authority to release oil if he so determines, and I believe that under the circumstances, if he were to release 2 million barrels of oil a day, we have about 573 million barrels of oil in the Strategic Petroleum Oil Reserve, if we were to release 2 million barrels of oil a day at least during the summer months, we are talking about approximately 180 million barrels of oil in a 3-month period, the Strategic Petroleum Oil Reserve would be down to as low as 400 million barrels, which would not be a serious security threat to our Nation's security.

I believe what is happening now is a serious threat, not to our Nation's security, Mr. Chairman, but to the lives, the economic welfare, of literally millions of Americans.

The price of gasoline may not matter much to those who have the wherewithal, but the price of gasoline is a very serious threat to working people who have to use their automobiles to get to work, to mothers who have to leave their children at a baby clinic, at a child clinic, so that their child may be safe while the mother is working, and it is a challenge for many who are living on a very meager existence to try to be able to get along with the extra costs brought about by reason of increased gasoline prices.

It is just unfair, it is unreasonable, it is illogical for us not to be releasing oil from the Strategic Petroleum Reserve.

On March 6th, I wrote the President to this effect. On June 20th I wrote the President a second time. It is my opinion that this would be an extremely helpful move in the right direction as far as our economy is concerned. It would certainly mean much to many people in this country, not those who are making millions of dollars in the market these days, but to average Americans who are working hard to eke out an existence.

So I consider it a privilege to appear before this Committee in order that I might voice the concerns of millions of consumers who are disturbed about what is happening and what is not happening, and what is not happening is hurting their economic existence, and we need support across the board.

Thank you.

Chairman GILMAN. Thank you, Senator Metzenbaum. Senator, in your role as Antitrust Subcommittee Chairman in the Senate Judiciary, do you think that we could do something more than we are doing to make the OPEC nations subject to our jurisdiction with regard to their monopolistic controls?

Mr. METZENBAUM. I am not sure we could make the OPEC nations more responsive. I do believe that we could do something through antitrust with respect to the oil companies, who we all know are now exploiting these shortages to their own economic benefit. They are ripping off the American people. I have read somewhere that some of their profits are up on a 5-times basis, 5 times over what it has been in the past. I think we could use antitrust there, and I would hope the antitrust department would move.

But realistically speaking, the antitrust department, or the FTC, whichever sees fit to move, and I think the FTC is about to conduct some hearings on this subject, the procedure has to be a slow one, and it can't be a very rapid one, whereas releasing oil from SPRO would be a much more rapid one. I don't think we can use antitrust against the oil-producing nations.

Chairman GILMAN. Well, we do have a measure that I have introduced to explore that possibility of whether we can gain jurisdiction over them, and we are taking a good hard look at that.

Mr. Payne.

Mr. PAYNE. Thank you very much. It is very good to see you again, Senator.

Mr. METZENBAUM. Nice to see you.

Mr. PAYNE. I miss your company on our trips there. They are not the same anymore.

Let me say that the Consumer Federation of America certainly is very fortunate to have you as their spokesperson and as their leader. I think it is very important that there is an advocate for the people that you talked about, those who are really being impacted by the high cost of fuel, people who, as you know, are struggling with the minimum wage. Many of them don't have cars, but they do carpooling with someone who does and they pay in sharing the costs of the gasoline and things of that nature. So it is really having a tremendous impact on people who are struggling to manage and to make it. Also as we saw in the northeast, there was not too much sympathy from the rest of the country during this winter when the northeast was hit with the fuel shortage. It only hit the States of New Jersey and New York and Massachusetts, and we found very little concern from the rest of the country. But now, the other part of the country is hit by the high oil prices. So I think the more that we remember that we are one Nation, indivisible, and what impacts negatively on one part of the country, other parts of the country should have a concern about it, and we should have a more united approach to our problems.

The numbers I heard mentioned, 2 million barrels a day, if they were to be released from the 500 million barrel reserve, it would use 180 million barrels during the course of the summer and would keep the reserves at about 400 million barrels. Now, in your letters to the administration on March 6th and on June 20th when you wrote to the President, what responses have you received from them, and in your letter, did you suggest a use of the Strategic Petroleum Reserve and what was the response?

Mr. METZENBAUM. I specifically requested a use of the Strategic Petroleum Reserve, and I might say I sent a copy of that original letter of March 6th to Secretary of Energy, Mr. Richardson. I received a response from the President some weeks after the original letter was sent indicating that he was not inclined to do so, and in a nice way saying no. But the fact is I didn't get very far. So I decided to go back on June 20th and I did go back on June 20th, a second letter, and I have not received an answer from that letter. Of course, it is just very recent.

I think there is a crying need to do something about this, and I think the little people are being hurt, the oil companies are getting richer, and I think that the economy itself is being negatively impacted.

Mr. PAYNE. Thank you very much. I couldn't agree with you more. I was shocked at Congressman Delahunt as he read off the 8 or 9 companies, oil companies, and the profits, starting at 600 percent now, they were making profits all along. I mean, that is on top of what was going on. That is egregious. I mean, here we are all bashing OPEC, and we should, but no one, especially from the other side, who have all left—we do have a Member—no one is talking about what is happening with these oil companies, and the mergers, which is happening in banking, which is happening in transportation, which is happening in the airlines. We are going right back to the standard oils of the turn of the century, with the robber barons and the big mega companies that are there, and they are so large that they are almost too big for the government to even have an impact on.

So I think there is enough to go around. I do think too that it is really being naively optimistic to think that we can do something to make OPEC change. I mean, people say we need to bust up OPEC. I just would like to know how do you bust OPEC up? We should bust up the diamond cartel. As a matter of fact, they take diamonds of civil wars and bandits and dictators and continue to sell them. We ought to look at busting that up too. It is great to say that, but how do you go about breaking up a group that comes together. I think that we need to have alternative sources, we need to stop being dependent.

As long as we go to bigger cars and more gas guzzlers and more disregard for the regard that we had 10 or 15 years ago when we went to smaller cars and people were more fuel efficient. But we have gotten back to the way we were in our habits of consumption that just going on and on and on, until we have alternative energy sources, until we have fuel efficient cars, until we really have electric automobiles on the road, these things make sense. We need to put our investment into those. We should really have funds made available and tax credits for these alternative sources of energy. That is the competition that OPEC will need. When we reduce our dependence on them, they will simply reduce the prices. That will weaken the cartel. That is the only way I think we are going to have a real impact on it.

I do believe that our friends that we did defend should have a little more respect for us, the Saudis and the Kuwaitis and those who we put 500,000 troops on the line for to defend their countries, it seems like it would simply be a show of good faith and appreciation to maybe raise the issue in the cartel, maybe they would be outvoted, but at least say maybe we are doing a little bit too much, knowing it was too low at $9 a barrel, but now that it has gone up to the other $31, we see the tremendous increase. So I think we have to have balance, figure out what it ought to be, move toward that goal, 17-, 18-, $19-a-barrel thing, and I think the stability in the world will benefit. Thank you very much. I appreciate having an opportunity to see you again.

Mr. METZENBAUM. I think that history will record that probably the failure to have some sense of appreciation from Saudi Arabia and Kuwait is probably one of the most ungracious, ignominious acts of any nation, one to the other. We were there when they needed us, we were there with our men, women, who went there to save those countries. The Kuwaiti leadership left the country while our men and women were there saving them from being overtaken by the Iraqis, and in appreciation, what comes about? The highest price oils, restricting the production of oil. They ought to

Chairman GILMAN. Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. Senator, we welcome you here today. I agree with you completely about the ingratitude of both Kuwaitis and Saudi Arabia in the fact that we sent our men and women in harm's way over there. This is a real slap in the face to the United States that they have cooperated in this collusion, in this unholy alliance of countries withholding oil from the market and driving up these gas prices to the extent that they have been, particularly in the Midwest, where we live.

I agree with you also that it is the little people, especially, that are being hit hardest at the gas pump. It the people that can least afford it that are paying these outrageous prices. I was over in your predecessor's, your successor's office, Senator DeWine and Senator Voinovich this past week, over in a bipartisan fashion, Congressman Sawyer and Congressman Tony Hall, and I believe Marcy Kaptur and some other Democrats were there, as well as Congressman Portman and myself, and a number of Republican Members of the House were there, and we were there with the head of the FTC requesting that the FTC do an investigation to determine if there has been any antitrust violations by the oil companies, if there has been any collusion, any price fixing going on here to determine if that has played a role in this.

I believe we should leave no stones unturned, that a full investigation ought to be done. He indicated that we would probably have an interim report back within 4 to 6 weeks. They claim that is pretty fast, but I hate to see these oil prices remain as high as they are for any length of time, because people really are being hurt.

I really do appreciate your being here. You had a very long and distinguished career in Ohio. I came in as you were going out, and I am sure politically we would have been at odds many times. I know you were——

Mr. METZENBAUM. We would have gotten along.

Mr. CHABOT. I am sure we would have gotten along personally. But I do very much appreciate being here today.

You mentioned the Strategic Petroleum Reserve, and I also believe that the administration should have pursued this to a greater degree. They seem to have, just offhand, rejected this.

What I wanted to ask you, one thing I wanted to ask you was if, and I know we have 500-some million barrels of oil there, and if you put out on the market, say, 2 million barrels or so a day, how long do you think it would take for that to have a real impact at the pumps, how long do you think we would have to continue to put that oil on the market? And are you satisfied that that would not put us into any sort of disadvantage as far as our defenses in this country go?

Mr. METZENBAUM. Let me answer the last part first. I am totally satisfied it wouldn't put us at any disadvantage as far as our defenses are concerned. There is nobody that says you need 575 million barrels or 475 million barrels. I have never seen any figure saying how many barrels we actually need to have in reserve.

But certainly, the way our military situation is and our world situation is today, I don't think there is any real threat. So I think we certainly could afford to bring down the Strategic Petroleum Reserve 200 million barrels without jeopardizing our security in any way.

The other part of your question was how long do I think it would take to have an impact upon oil prices. My opinion is that once we started to release the oil, it would have an immediate impact. I think that when the OPEC nations raise the price of oil, it has an immediate impact here. When they lower the price, it has an immediate impact here. I think if you put 2 million barrels a day more into the pipeline, it is not a matter of how long it would take to get from the pipeline to California or to get to Ohio or to get to New York, because once it is in there, it has an immediate impact upon the pricing mechanism, and I think that it would just be within days, hours or days, before the prices would start to come down if we started to release oil from OPEC.

Mr. CHABOT. Thank you, Senator. I appreciate your time.

Chairman GILMAN. Mr. Delahunt?

Mr. DELAHUNT. Thank you, Senator. I never had the pleasure to serve with you either. I came only—this is my second term, but I have always admired and respected your work here.

Mr. METZENBAUM. Thank you.

Mr. DELAHUNT. You know, the subject of today's hearing is OPEC's policies, a threat to the U.S. economy? But the more I listen, and particularly your observations and my own about the remarkable increase in terms of oil company profits from the first quarter of 1999 to the first quarter of 2000, which is approximately triple, and we should be reminded or we should note that in 1999, it was an extremely profitable year for the major oil companies.

I think what we should be doing is to examine, and I would be interested in your observation, to examine the relationship between the OPEC countries and the major oil countries? I think we try to separate and distinguish between OPEC, and I think that conjures up a vision primarily of Middle Eastern nations such as Kuwait and the oil emirates and Saudi Arabia on the one hand, and the major oil companies, whether it be Amoco or Texaco, or Exxon-Mobil on the other.

But I presume that in the marketplace, there really is a commercial relationship between the major oil companies and the OPEC nations that really has not been revealed in any of the hearings that I have attended.

I would be interested in your comment as far as that is regarded.

Mr. METZENBAUM. I think you are right on target, Mr. Delahunt. I think there is no question about the fact that the oil companies and the oil producing nations are in bed together. They do not fight oil price increases. The Arab nations want to increase their prices, the OPEC nations, so be it. And I don't think, it is not a matter of being arm's-length relationship.

Mr. DELAHUNT. If you know, Senator, if I can interrupt, I presume that there are strategic alliances where, for example, an American company will work with a State-owned entity in one of the OPEC countries, and there will be an equity relationship with either the State-owned entity or the major oil company will have 50 percent or 51 percent of the equity in a particular enterprise. Am I correct when I say that?

Mr. METZENBAUM. I think you are 100 percent correct, and, frankly, I don't believe that the OPEC nations in the main would have been able to develop their oil without the financial assistance, or the engineering assistance, and the intelligence portion of putting it together and seeing to it that the oil gets up out of the ground and into the pipes. I think, perhaps at this time, they are able to do that. But for many years, I think that American ingenuity and some European ingenuity as well made it possible for the oil-producing nations to get the oil out of the ground and get it to market.

I think that the oil companies probably originally had a pretty good go of it as far as they were concerned. But right now, I think that it is not an arm's-length transaction. I think that——

Mr. DELAHUNT. They are working in tandem?

Mr. METZENBAUM. They are in bed together.

Mr. DELAHUNT. Because if you take a look, the profits that have just exploded——

Mr. METZENBAUM. Absolutely.

Mr. DELAHUNT. Clearly, the cost of doing business for the oil companies did not escalate so substantially during the course of a single year that would have allowed those kind of profits to occur.

Mr. METZENBAUM. In no way did their costs increase. I think maybe it is a bad pun, but I think the oil companies greased the way for the Arab nations to take advantage of this situation. They didn't fight it. They didn't try to find some alternate way of dealing with it.

Mr. DELAHUNT. They benefited from it.

Mr. METZENBAUM. Sure. They went along.

Mr. DELAHUNT. They benefited from it.

Mr. METZENBAUM. Look at the profit margins. They are unbelievable.

Mr. DELAHUNT. What we have are the OPEC nations, and you justifiably noted what we, in this Nation, did, in terms of saving the regimes, and let us call them really what they are, the regimes, because they are not democracies in Kuwait and Saudi Arabia, because of our oil interests, by the way, we didn't do what I would suggest out of any democratic impulses, but it was because of oil. And here we are, you know, 10 years later dealing with another crisis. But I would hope that in our next hearing that the Chair would consider a panel that would describe in detail for us the relationship between the OPEC nations and the major oil companies, because what I see happening is on this side of the aisle, among Democrats, there is a lot of talk about the major oil companies; silence on the other side, and again, I am not ascribing, you know, any particular motives, but there is enough culpability and responsibility to go around here to really examine, once and for all, these interlocking relationships that are not just benefiting the OPEC nations, but major oil companies, to the detriment of the consumer.

Mr. PAYNE. Would the gentleman yield for a moment?

Mr. DELAHUNT. Certainly.

Mr. PAYNE. I just think that is an excellent presentation, an area we ought to move in, but I might even, you know, as you probably know as well as I do, when the British ended colonialism, particularly around the Red Sea, the Horn, Qatar and the Emirates and those small countries, one of the reasons that they were broken up into mini-states was that it made it easier for the major oil companies to deal with one Sultan or someone, so the whole question of the division of those States were based on oil, and based on the colonial oil companies wanting to have the direct tie because of the sharing of the profits by the investment from them to the oil there. So I yield back.

Chairman GILMAN. Just to respond to Mr. Delahunt, we will be inviting major oil companies at our next hearing.

Mr. Delahunt.

Mr. DELAHUNT. I thank the Chairman. I am not here to simply bash the major oil companies, but I think in terms of an honest and thoughtful examination of the subject, that it is very important and critical to examine these relationships.

Mr. Payne's comment about, you know, the early decades of this century when Britain was an imperial power, and he is so correct when he says that it was much easier dealing with a Sultan or a Emir, rather than nurturing democracy. You know, nothing has really changed in the course of 100 years as far as the Middle East is concerned and the nurturing of democracy, other than the state of Israel. But, again, it would lead one to wonder why we haven't been more aggressive in terms of again, promoting democracy. But maybe there is an answer somewhere in this mix of big oil and the OPEC nations that are enjoying, you know, this spike in prices.

Chairman GILMAN. Thank you, Mr. Delahunt.

Senator Metzenbaum, in closing, I would like to note for the record that Senators Kohn and Senator DeWine are both calling for antitrust action against the OPEC nations. I think we should try to find a method for doing that. I have introduced some legislation, I am going to submit it to you, and we would welcome your reviewing it and think about how best we could accomplish this with all of your experience in antitrust work.

Our hearing stands adjourned——

Mr. SHERMAN. Mr. Chairman, I did come with some questions, but if the hearing needs to end, I will understand.

Chairman GILMAN. If you would like, one question, if you would, and then we are really overextending our time.

Senator Metzenbaum has been here for a couple of hours.

Mr. SHERMAN. Senator, I thank you for your patience. I was talking to one of our colleagues from Earl, Wisconsin, who points out that they are paying more in rural Wisconsin for non-reformulated gas, for the old-fashioned gasoline, than they are even in Milwaukee and Chicago for the reformulated gas. I don't know if you have had a chance to look at this either in Ohio or the Midwest in general, but does this reformulated gas really have much to do with the spike in prices?

Mr. METZENBAUM. I don't think that is really the cause for this spike in prices. I think it is just a question of what they can get they are going to get, and they are doing it very well, to the detriment of the American people.

Chairman GILMAN. Thank you again, Senator Metzenbaum. We appreciate your patience to be with us this long. We wish you good health.

Mr. METZENBAUM. Thank you very much, Mr. Chairman. It is very gracious of you to permit me to be heard. Thank you, Mr. Payne. It is nice to see all the rest of you here this morning—this afternoon, I guess it is.

Chairman GILMAN. The Committee stands adjourned.

[Whereupon, at 1:50 p.m., the Committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

Prepared Statement of the Honorable Benjamin A. Gilman, a Representative in Congress from the State of New York, and Chairman, Committee on International Relations

I am very pleased to welcome Secretary Richardson back to the International Relations Committee for our hearing this morning on "OPEC's Policies: A Threat to the U.S. Economy," and to note that later this week he will speak on similar topics before at least three other committees in the House and Senate.

Today's hearing is the third in our series on the impact of the price-fixing-schemes of the Organization of Petroleum Exporting Countries on the American homeowner, the small businessman, the commuter, the truck driver, the consumer—and the policymaker who sits in your seat and must manage this uneasy and very troubled relationship.

Our policy is hard to discern—and harder still to explain to the average American who has seen gasoline prices rise some 60 cents over the past year and a half to record levels in the northeast and midwest.

Oil prices today are higher than at any time since the Iraqi invasion of Kuwait. Continued high prices for gasoline and other fuels are now beginning to stunt our own economic growth and curtail global growth prospects as well. In addition, they are stoking the flames of inflation inducing bankers to raise rates and curtail lending.

How has the Administration reacted to this growing threat to our pocketbook and our prosperity? Remarkably passive in the face of OPEC's continued assault on our free market system and antitrust norms, this Administration is still firing blanks when it should be making an all-out attack on the production allocation system which has kept oil at $30 a barrel for much of the year.

The producers are in clover with multi-billion dollar profits while consumers are in hock to a cartel that is turning our economy's soft landing into an abrupt free fall with no rip cords left to pull.

I am still waiting for the answers I raised at our first hearing: What has the Administration done to systematically review our policies toward OPEC and its member states? Why has the Administration failed to weigh in strongly enough with OPEC last year to prevent a continuation of production cutbacks? And how can we begin to take effective action against its continued production cutbacks and price fixing behavior?

The Administration's *laissez-faire* approach has sent the clear signal to OPEC that price-fixing is fine by us, that production cutbacks are not so bad after all, and that as long as you keep trying to aim at a reasonable price for crude oil, you can overshoot your mark with $30 a barrel oil with not so much as a slap on the wrist. Uncle Sam is being played for "Uncle Sucker."

The legislation I introduced last week, "The Foreign Trust Busting Act' 'and the "International Energy Fair Pricing Act of 2000" will ensure that this Administration adopts a consistent and comprehensive policy of opposition to OPEC and other similar cartels. In the ongoing energy crisis facing this nation, it keeps the spotlight where it belongs—on this international energy cartel. With the enactment of this measure, the Administration will no longer be able to go back to business as usual in supporting back room arrangements and cartel-like behavior.

The first measure would allow lawsuits to be brought against foreign energy cartels. The second would specifically direct the President to make a systematic review of its bilateral and multilateral policies and those of all international organizations and international financial institutions to ensure that they are not directly or indirectly promoting the oil price-fixing activities policies and programs of OPEC.

It would require the Administration to launch a policy review of the extent to which international organizations recognize and or support OPEC and to take this relationship into account in assessing the importance of our relationship to these organizations. It would set up a similar review of the programs and policies of the Agency for International Development to ensure that this agency has not indirectly or inadvertently supported OPEC programs and policies.

Finally, it would examine the relationship between OPEC and multilateral development banks and the International Monetary Fund and mandates that the U.S. representatives to these institutions use their voice and vote to oppose any lending or financial support to any country that provides support for OPEC activities and programs.

I would now turn to Mr. Gejdenson for an opening statement.

PREPARED STATEMENT OF THE HONORABLE SAM GEJDENSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. Chairman, thank you for scheduling today's hearing. With gas prices surging to between $1.80 and $2.00 per gallon in eastern Connecticut and as high as $2.50 in the Midwest, we need some answers. High prices for gas and oil adversely affect the economy, lead to higher inflation, and increase the trade deficit.

I am pleased at Secretary Richardson's willingness to be here to address this difficult issue, but frankly, he should not be here alone. We should be hearing from the chief executives of major domestic oil companies which are realizing enormous profits this year. The industry has attributed high gas prices in the Midwest to a host of problems from a ruptured pipeline to "new" gasoline requirements which it knew about long ago. Taken together, these factors do not fully explain the high prices in Chicago and Milwaukee, and they certainly do not explain $1.80 and $2.00 gas prices in eastern Connecticut. What they also fail to explain is the 500% increase in earnings that some oil companies have realized in the first quarter this year.

OPEC shares much responsibility for the current crisis. It has manipulated worldwide supply to maximize the profits of its member nations. This syndicate took 6% of world supply off the market in 1999 to drive prices up. Now it is slowly increasing production under pressure from this Administration.

I had hoped that the heating oil crisis in the northeast this winter would have persuaded members to support sensible long and short-term proposals to reduce our dependence on foreign oil.

On February 15th, in the midst of the heating oil crisis, I warned that gas prices would rise dramatically unless decisive steps were taken. Now, I am warning that unless we act soon, we face another heating oil crisis. Indeed, heating oil stocks are now 22% below last year's levels. Although some positive initiatives have been introduced in Congress, we have not followed through on any of them.

It's high time that we started enacting sensible legislation and supporting the Administration's efforts to reduce our dependence on foreign oil. In short, Congress cannot be the foul-weather friend of American consumers; we must have a sustained interest in this issue, even when times are good.

Mr. Secretary, I want to thank you for coming before the Committee today. I want to thank you for your commitment to public service and to your job as Secretary of Energy. I particularly want to thank you for your diplomatic efforts which have encouraged OPEC to increase production by a total of 2.4 million barrels per day since March.

Mr. Secretary, I was one of the first in this body to be critical of the Administration's slow response to the heating oil crisis that we experienced in the northeast. It failed to act aggressively, and consumers in the northeast paid a high price for its inaction. I must add that although you and others have pressed OPEC to boost production in March and again just last week, the Administration must keep OPEC's feet to the fire and ensure that member nations follow through on their commitments. OPEC promised to raise production 500,000 barrels per day if crude prices went above $28 per barrel for a specified period of time. When these conditions were met, OPEC reneged. These empty promises will not bring prices down at the pump.

Now, some in this body are attempting to convince the American people that the Administration is solely responsible for the current situation. I give tbe American people more credit. I believe that they recognize that an energy policy is based on long-term investments in building energy security and independence. Unfortunately, for six years, the majority in Congress has failed to make the necessary investments in energy efficiency, renewables, and conservation.

Since Fiscal Year 1996, the majority has slashed the President's proposed investments in energy supply research and development by approximately $2 billion and conservation programs by $1.1 billion. In fact, the investment for conservation approved the House Appropriations Committee only a week ago is $44 million less, in nominal terms, than the investment in Fiscal Year 1995.

The majority also consistently blocked any effort to improve the fuel efficiency of our cars and trucks. If we had more efficient vehicles on the road today, high gasoline prices would be less of an issue. Unfortunately, since 1996, Congress has barred the National Highway Traffic Safety Administration (NHTSA) from even studying whether or not fuel efficiency standards for cars and light trucks should be increased. As a result, we have not increased average fuel efficiency standards (Corporate Average Fuel Economy—CAFE, for short) since 1985. This is extremely short-sighted because raising the average fuel economy of our cars and trucks just by one mile per gallon will save about 250 million gallons of gasoline each year—that's 12.5 million barrels of oil per year.

Even more damning is Congress's failure to reauthorize the 570 million barrel strategic oil reserve. This legislation lapsed at the end of March. Although the heating oil crisis forced the majority to take up this legislation, which eventually passed on an overwhelming 416–8 vote, it has languished in the Senate. For 76 days, the Senate leadership has stalled action as it has tried to use this essential legislation as a vehicle for anti-environmental provisions—including opening the Arctic National Wildlife Refuge to oil exploration and drilling. We all know that drilling in this pristine wilderness has no chance of being signed into law.

Two weeks ago, the Secretary had to tap the reserve to supply refineries that had been cut off from their regular crude supply. This quick action has helped keep gasoline flowing to the east coast. Unfortunately, because Congress has not passed a simple, cost-free bill to renew the reserve, the Secretary's legal authority to use it for this type of common-sense measure has been put in doubt.

By failing to reauthorize the strategic oil reserve, the majority has also failed to provide energy security for consumers in the northeast who rely on heating oil to heat their homes and businesses. At the request of the President, the Secretary, and many members of Congress, the reauthorization of the strategic reserve includes language to create a northeast heating oil reserve. However, because of the 76-day delay in the Senate, it appears that we will not have a reserve in the northeast before the onset of winter.

The House had a chance two weeks ago to make its concern about the heating oil reserve clear. Mainly along party lines, the House voted down a measure (193 to 195) that would have provided $10 million to fund the northeast reserve.

Again, I wish we were not facing another price and supply problem, but if anything is to come out of this current crisis, I hope it is a more active interest in these important initiatives.

Before I conclude, I want to emphasize that if the authority to use the strategic oil reserve is extended, the Administration should not be reluctant to use it. When I warned about high gasoline prices this winter, I called on the Administration to use the reserve to tide us over until higher OPEC production entered the market. If we had pursued this course, I believe we would have been in a more comfortable position during the summer driving season and heading into winter.

Mr. Secretary, I want to again thank you for being here this morning. I look forward to your testimony.

PREPARED STATEMENT OF THE HONORABLE PAUL GILLMOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, I thank you for convening this hearing on the policies of the Organization of Petroleum Exporting Countries (OPEC). OPEC, without a doubt, is one of the major reasons for unacceptably high gas prices in the Midwest.

I was happy to see OPEC's decision last week to boost production by 708,000 barrels a day. However, it is important to note that this action will do little to relieve the burden on American consumers. Many analysts agree that refineries are already operating at peak levels to meet existing demands. This may prove to be to little, too late for my constituents.

Another factor in the high gas prices has been the fact that the United States has placed many areas "off limits" to domestic petroleum exploration and production. While there may be some valid reasons for doing so, the fact is this has made the United States more dependent on foreign energy and much more vulnerable to the international cartel.

There have also been allegations of collusion by oil companies in forcing up prices. So far, these allegations have not been proven, but the Federal Trade Commission is investigating the matter to get at the truth.

The major reason, though, for high gas prices is the failure of the Clinton Administration to develop a coherent or effective energy policy. The Administration has also failed to confront OPEC when they could and should have. For example, one of the major OPEC producers is Nigeria. Two weeks ago, the U.S. Secretary of State proposed that Nigeria be relieved from billions of dollars in foreign debt. At no time, though, did the Administration do the obvious thing in the interest of the United States. I believe we should call on Nigeria to conduct itself in a way that will provide relief to American consumers for the billions of dollars in additional costs imposed on them by OPEC and Nigeria.

I would also like to take advantage of this audience with Secretary Richardson to make my opinion known on the current security situation within the Department of Energy. I am sure we are all aware of the many security breeches that have occurred in recent weeks and have put our national security severely at risk. Yet, I would like to draw this committee's attention to a startling report in yesterday's *Columbus Dispatch* revealing that "30 percent of the security-operations personnel at the (Los Alamos National) Laboratory, who were interviewed by the inspector general, said they had been pressured to alter their responses on periodic surveys of laboratory security conducted by the Energy Department."

This is absolutely unacceptable behavior by Clinton Administration employees. Coercing security personnel into giving positive statements designed to improve the laboratory's security rating is careless, dangerous, and irresponsible. It is time for someone to be held accountable for this problematic situation within the Department of Energy and for adequate and full explanations to be put forth.

Mr. Chairman, again, I thank you for calling this hearing and allowing me to make some brief comments. I would also like to thank Secretary Richardson for making himself available to the Committee this morning.

PREPARED STATEMENT OF THE HONORABLE ROBERT MENENDEZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

"Thank you, Mr. Chairman, for convening this important hearing. Secretary Richardson, I thank you for coming before us today.

"Mr. Chairman, despite Secretary Richardson's recent diplomatic efforts, which resulted in OPEC and other oil producing nations increasing their oil output by an additional 700,000 barrels per day, we are facing a crisis in our nation's energy situation. If not addressed quickly and forcefully, this crisis will become even more serious than it already is.

"Exorbitant gasoline prices are a problem as we begin the summer season. I am even more concerned about home heating oil costs for next winter. *The current inventory of home heating oil on the East Coast is 40% lower than at this time last year.*

"Mr. Chairman, this is not the first time we are having this discussion. Many of the steps we can take are already before us. Certainly, OPEC should be persuaded that collusion now in the effort to gain high prices in the short-term, could come back to haunt the cartel in the long-term. *This country should not be underestimated in its ability to develop alternative energies.* Vice-President Gore's announcement this week of a bold new energy policy should be read as *a welcome sign to America's consumers and a warning sign to OPEC's producers.*

"I have joined a large number of my Democratic colleagues recently in calling for urgent action on several fronts. We have asked that the Federal Trade Commission expedite its investigation into price-gouging on the part of oil companies. Major oil companies have nearly tripled their profits as a result of these price increases—*from $4.5 billion in profits in the first three months of 1999, to more than $12 billion in the same period this year*. We also have urged the leadership in Congress to unblock efforts to renew the Strategic Petroleum Reserve (SPR). We ask also that the President, once given the authority, release or exchange more oil reserves from the SPR. Finally, we call once again on Congress to authorize the Northeast Oil Reserve, as passed by this House, but now languishing in the Senate.

"Let us not forget, Mr. Chairman, that the leadership of this Congress shares a responsibility to act now.

"*The Republican leadership has failed to provide Americans with energy security*. The Republican majority has failed to reauthorize the Strategic Petroleum Reserve; continues to send Alaskan oil to Japan, despite our current domestic price spike; and—most damaging—has failed to fund research and development into alternative fuels and energy efficiency. *In the past five years, Republicans in Congress have funded only 12% of the Administration's requests for new investments in renewable sources of energy and energy efficiency initiatives—this measly and irresponsible level of funding has been nearly $2 billion short of Clinton Administration requests.* [So. I don't think, Mr. Chairman, it is appropriate to claim here today that the Administration has no energy policy.]

"Republicans not only have failed to build up the Strategic Petroleum Reserve when fuel was cheap, but before we faced this crisis, *they proposed getting rid of the Energy Department and selling off the reserve—policies that would have been extremely detrimental if carried out as proposed.*

"I look forward to our discussion with Secretary Richardson and hope that by the end of the day we can all agree on taking some steps now that will protect the American economy and American consumers *this summer, this winter*, and *for many seasons to come."*

PREPARED STATEMENT OF THE HONORABLE JOSEPH CROWLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

- I would like to thank Chairman Gilman and Ranking Member Gejdenson for holding this important hearing today
- The more things change, the more things stay the same
- We all gathered here last March for a similar hearing; at that time we all gathered to discuss the high costs of home heating oil
- Today, we discuss the high costs of gasoline
- If this chamber does not work together with the Administration to solve this problem, we will again be back here next winter to again discuss the high cost of heating oil—I don't want that, Mr. Gilman and Mr. Gejdenson don't want that., and our constituents definitely do not want that
- Gas prices have gone up over 75 cents a gallon since last summer in my Congressional District
- I represent a working class district, where most of the homeowners are senior citizens or working families—they cannot afford this
- They are the working people who have budgets to keep, are paying their mortgage, setting aside funds for their kids education and hopefully keeping enough money for a family vacation
- Therefore, I again implore the Secretary to open up the Strategic Petroleum Reserve (SPRO) to provide immediate relief to my constituents
- When President Bush opened the SPRO up at the start of the Persian Gulf War, the price of crude oil dropped $10 a barrel on world markets over night
- The SPRO was created by the Federal government to provide relief to American citizens and small business owners in times of energy crises like we are experiencing today
- Additionally, I would like to state that OPEC should continue to increase its output
- As a nation, we have worked hard to ensure the survival of a number of Middle Eastern nations, it is time that this friendship be reciprocated
- Quite frankly, some of these nations owe us a major debt and I find their current collusion disgraceful and something that this Congress should remember well into the future
- Stating that, I would like to address the partisan bickering from the other side blaming this Administration and you Mr. Secretary for the high prices of oil
- While I disagree with the Administration on their policy regarding opening the SPRO, my Republican colleagues are wrongly blaming the President for every problem under the sun
- This Administration has advocated the creation of a home heating oil reserve for the Northeast, but the Republican, majority refused to fund it (no funding in Interior Approps and Sanders amendment for $10 million for this reserve failed 193–195)
- The Administration had continually worked for the reauthorization of the SPRO, but again, the Republican Congress has blocked that too
- This President has worked for greater energy efficiency and alternative sources of power, all to see his work destroyed by the Republican Majority
- And lastly this Congress voted yesterday to cut funding for the Federal Trade Commission—the people who investigate price fixing here in America—by $30 million from the President's request and $10 million from last years enacted appropriation (CJS)

- This Congress is fiddling while Rome bums and then calling the President an arsonist
- It is time to put the partisan rhetoric aside and work together to make sure this is the last hearing this Congress needs to hold on the excessive costs of oil
- Stating that, I welcome Secretary Richardson to the Committee today and would like to pose a question to the Distinguished Secretary

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PREPARED ORAL STATEMENT OF
U.S. ENERGY SECRETARY BILL RICHARDSON
BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE
JUNE 27, 2000

Thank you for giving me this opportunity to speak with you about the current energy situation, and about the short and long-term solutions advanced by the Administration.

As you know, any actions we take are based on the Clinton-Gore Administration's enduring energy policy, which is, itself, based on a number of steadfast principles. We believe in:

- market forces -- not artificial pricing;
- diversity of supply and strong diplomatic relations with energy producing nations;
- improving the production and use of traditional fuels through new technology development;
- diversity of energy sources, with long-term investment in alternative fuels and energy sources;
- increasing efficiency in the way we use energy; and
- maintaining and strengthening our insurance policy against supply disruptions – the Strategic Petroleum Reserve.

Mr. Chairman, I addressed you in the spring regarding actions by the Administration to counter tight markets, low worldwide oil stocks, and gradually increasing prices.

At that time, we were taking specific actions to address an untenable imbalance between supply and demand -- one that risked negative repercussions in the world economy.

We continue to believe that markets should set prices. But while we import 22 percent less oil from OPEC today than we did around our last gas crunch, in 1977, it remains clear that actions by major oil producing nations still significantly affect oil supply.

That is why, this spring, I spent a great deal of my time talking with energy ministers and leaders from the oil producing nations -- like Saudi Arabia, Kuwait, Mexico, Norway and Venezuela.

Each of these nations is well-aware of the special economic and energy relationships between their nation and the United States, as well as to other importing countries. Each of these nations agrees that stability is our common goal, and that volatility in the oil markets is undesirable.

We met with some success at that time. In February, all OPEC governments were quoted as saying that production increases were unnecessary. But on March 28th, OPEC announced their decision to increase production, and other producers joined them. We saw some trimming of crude prices then, and some slight easing on gas prices.

But very low stocks and soaring demand have boosted prices still higher since that increase. So I have continued to keep producing nations abreast of our situation and made our position clear. With prices staying high since spring, we needed to do more. I urged OPEC to keep an open mind.

Now, it's worth remembering that OPEC is a consensus organization, and not all governments in OPEC are friendly toward the U.S. Still, the consensus that came about when the OPEC leaders met in Vienna, Austria last week increases output by roughly 3 percent – about 708,000 barrels per day – and Mexico will provide an additional 75,000 barrels a day. We also anticipate an additional small increase from other non-OPEC producing countries.

Overall, we believe that OPEC's decision is a testament to the fact that those governments responded to the concerns we raised.

While this recent lift is modest, it is an important step. Mr. Chairman, since this time last year, **we have seen a nearly 3.5 million barrel-per-day increase in production**. **That is substantial**. And it is not only good for America, but it is good for Asia, Europe, and all the world economies.

I'm pleased to report that, in the past week, we have seen some positive movements in the markets. The Energy Department's Energy Information Administration is now reporting that conventional regular gasoline has dropped 3 cents per gallon over the past week, nationwide. And in the Midwest – where we were seeing very high prices – EIA sees a drop of about 7 cents per gallon of conventional regular. Reformulated gas is down 12 cents a gallon in the Midwest.

We can't yet call this a trend, but heading into the Fourth of July, this is good news.

But we are still not seeing the greater price decreases -- both per barrel of oil and per gallon of gas -- that we might have hoped for. The reason for this is quite simple: demand. The world's thirst for oil is steadily rising.

Other than 1997, the second quarter of this year may show the strongest year-over-year growth – 2.1 million barrels per day – ever. When combined with our need to build inventories from historically low levels, even large supply increases of 3 million barrels per day are not enough.

And demand will continue to grow. We need to encourage methods to temper that need.

We are not relying on other governments for those answers -- and certainly not to ensure our energy security. As I mentioned, our nation has a firm energy policy that serves as a foundation ensuring that we have the energy resources that we need. And beyond that policy, the Administration has also made some aggressive, short-term moves to cool-off particular hot points.

You remember that we had a heating oil shortfall in the spring. In response, the President released almost a third of a billion dollars in funds in the spring, so that low income individuals could pay their heating bills. He asked for $600 million dollars more in Low Income Housing Energy Assistance funds. And the President is seeking an additional $19 million dollars from Congress for low income home weatherization.

We addressed the issue of supply through increased support for tankers; Small Business loans for distributors and other small businesses impacted by high prices; and encouraged refiners to increase production.

We also re-established an Office of Energy Emergencies at the Energy Department, to coordinate with the States and other federal agencies regarding any energy-related crises. This move is helping us right now as we assess the demand for power during a very hot summer.

We're also seeking to turn around domestic production of oil -- where we are seeing some good results -- develop alternative sources of energy, and increase energy efficiency. In energy efficiency, one of our most exciting prospects is our work in the Partnership for a New Generation of Vehicles, or PNGV – where we're looking to develop a car that will get 80 miles per gallon.

While Congress has eliminated almost all our funding for PNGV via a House floor amendment, we remain committed. You've likely read of the new release of Honda's Insight -- which is nearing our miles-per-gallon target. These vehicles are not just **of the moment**; they will be part of the lasting solutions we can commit **to** today – **for** tomorrow.

We're also looking to help independent oil producers test new production technologies, and give a hand to small producers in existing fields. And we're helping refiners deal with the new EPA tier II rules, through our ultra clean fuels program.

But still: **we remain concerned about oil supply**. There is significantly more oil on the market today than there was prior to OPEC's March meeting. And domestic production is turning around. But we need to ensure that supply is sufficient enough to meet demand and build stocks, both worldwide and here at home.

This will help the market operate within a comfortable margin of safety for the remainder of the year.

<u>Still, facing the imminent Fourth of July weekend, America cannot declare independence from the gas pump</u>. This is peak driving season, and refineries in the U.S. are already operating at 96 percent utilization – and at 99 percent in the Midwest. When levels are that high, it clearly indicates that demand is the driving factor. So I don't think that the production boosts are going to immediately push prices

[redacted]

We remain very concerned about gasoline prices in the Midwest – especially around Chicago and Milwaukee. I have been talking to President Clinton about this, and I don't need to tell you: drivers in those cities are angry. We're looking for solutions, but questions

We took several other steps in the past two weeks to meet some rather unexpected issues.

On June 15th, I ordered a limited exchange of crude oil from the Strategic Petroleum Reserve's West Hackberry site to two refineries after a commercial dry dock collapsed near Lake Charles, Louisiana. Our response came within hours, and shows our commitment to responding quickly. The Army Corps of Engineers has since worked overtime to dredge a new channel, so oil traffic is moving once again.

And when there was a pipeline problem near St. Louis, we granted a waiver that postponed implementation of the new EPA rule on reformulated gasoline until the problem was solved.

But there is still more that we can do to get relief to consumers -- and these are the kinds of long-term solutions we need to embrace to ensure we get out of lasting cycles with prices pegged at one extreme or another.

Last week, President Clinton sent a letter to the Senate Majority Leader, urging that the Congress work with the Administration to enact the President's pending energy proposals without delay.

One central component of the President's energy initiatives is a $4 billion dollar package of tax incentives to encourage domestic oil and [redacted] homes, and consumer products. This package has languished here on the Hill for two years.

The President has also consistently asked for increased investment

And the Congress has delayed action to extend the Energy Policy and Conservation Act, which authorizes two programs at the core of our nation's energy security: the Strategic Petroleum Reserve and our participation in the International Energy Agency. Mr. Chairman: the EPCA expired on March 31st. Let's work together to get this done.

[illegible]

Restructuring Act two years ago. Congress has not yet enacted a bill – with the latest failure last week, when the Senate Energy and

[illegible]

I don't want to see people in the Northeast next winter debating whether they can afford to eat or to stay warm. It's a devil's choice – and Americans shouldn't have to live that way.

Mr. Chairman, we have viable options before us to improve America's energy security – and do so in ways that are cleaner and more economical than ever before. I appreciate the opportunity to explain to you what I have done as Energy Secretary to bolster that confidence. Now, I urge the Congress to do its part and act on the critical energy proposals before it.

UNITED STATES GENERAL ACCOUNTING OFFICE REPORT TO THE HONORABLE DIANNE FEINSTEIN, U.S. SENATE

APRIL 2000

MOTOR FUELS—CALIFORNIA GASOLINE PRICE BEHAVIOR

B–285102

The Honorable Dianne Feinstein
United States Senate

Dear Senator Feinstein:

Retail gasoline prices in the United States have risen sharply since early 1999, mostly in response to sharply rising world crude oil prices. Although gasoline prices have, in general, been relatively low for U.S. consumers' compared with both historical standards and the prices paid in many other industrialized countries—sharply rising gasoline prices can potentially have an adverse impact on U.S. consumers, as well as on the U.S. economy. Moreover, during the second half of the 1990s, retail gasoline prices throughout the United States have exhibited a high degree of volatility and fairly frequent spikes. Particularly in California, where consumers already generally pay higher average prices than they do elsewhere in the United States, the spikes have raised questions about the behavior of gasoline prices both within the state and between California and the rest of the country.

Concerned about the higher gasoline prices and the extent of price spikes in California, you asked us to analyze the behavior of gasoline prices in the state. Because we found no standard definition of a gasoline price spike, for this report, we define a spike as an increase of at least 6 cents per gallon in a 4- to 21-week period. As agreed with your office, this report addresses the following questions: (1) To what extent do retail gasoline prices spike more frequently and higher in California than they do in the rest of the United States, and what factors account for any difference? (2) Do retail gasoline prices in California rise faster than they fall in response to increases and decreases in the wholesale price of gasoline and, if so, why? (3) What factors account for differences in the retail prices of gasoline between San Francisco and Los Angeles?

RESULTS IN BRIEF

According to our analysis of gasoline price data, from January 1995 through December 1999, retail gasoline prices spiked no more frequently in California than they did in the rest of the United States, but the spikes that did occur were generally higher in California than elsewhere in the nation. Prices spiked seven times, and during six of the spikes, the price increases. (the differences between the low and high prices) were between 3 cents and 31 cents per gallon higher in California than in the rest of the United States. Many federal, state, and oil industry officials told us that the higher price spikes in California were caused primarily by unplanned refinery outages that disrupted the state's tight balance between gasoline supply and demand. Because California refineries produce at almost full capacity, supply disruptions caused by refinery outages must be made up from other sources, such as out-of-state providers. However, obtaining gasoline from such providers is slow and costly because only a few out-of-state refineries can produce gasoline that meets the state's stringent emission-reducing standards and the gasoline must be shipped by tanker from far-away locations. In contrast, some West Coast retailers told us that reduced competition at the refinery and retail levels caused the higher California spikes. The Federal Trade Commission is currently investigating gasoline prices in California and other West Coast states.

According to the results of statistical modeling by the Department of Energy's Energy Information Administration, retail gasoline prices in California rise faster than they fall in response to a delayed pass-through of changes in the wholesale prices of gasoline—a behavior that has been observed in other markets. The model was not designed to explain the factors that account for this price behavior. Energy Information Administration officials believe, however, that this price behavior has little or no impact on consumers because their analysis shows that price increases and decreases at the wholesale level are generally fully passed through to the retail level, despite some delay. Oil industry officials and experts we contacted also told us that retail prices generally fully reflect changes in wholesale prices and that the observed price patterns may be due to the way retail sellers react to these changes. The officials and experts were uncertain about what effect, if any, this behavior could have on consumers.

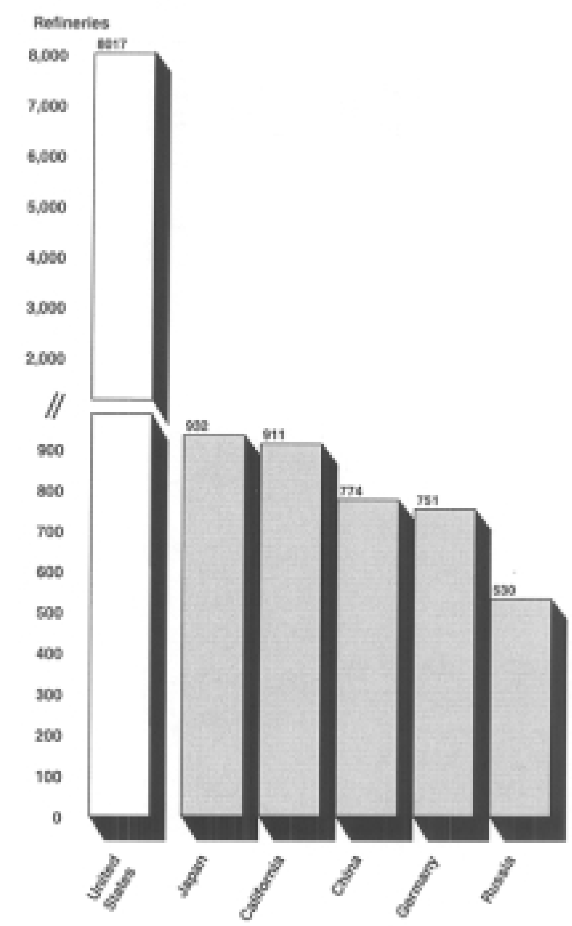
Retail gasoline prices are higher in San Francisco than in Los Angeles, in part because of local supply and demand conditions. Retail gasoline prices were, on average, about 11 cents higher in San Francisco than in Los Angeles for the period from January 1992 through December 1999. Among the local supply and demand conditions that are important in explaining the price differences between the two cities are (1) the number and location of retail gasoline stations, (2) the costs of building and operating gasoline stations, and (3) consumers' incomes. Together, these conditions would be expected to lead to higher retail gasoline prices in San Francisco than in Los Angeles, although the exact magnitude of the effects on prices cannot be determined with the available data. The local supply and demand conditions we identified may not entirely explain the price differences between the two cities. Other factors, such as competition at the refining level, may help explain these differences, but we were unable to obtain proprietary data that would have allowed us to explore this possibility.

BACKGROUND

Gasoline prices in California and the rest of the United States have risen sharply over the past year, largely because of increases in the price of world crude oil, which rose from a low of about $12 per barrel in February 1999 to a high of about $34 per barrel in early March 2000. In spite of this sharp rise, gasoline prices are still lower in real terms than they were at their peak in 1981. For example, in early March of this year, the average price of gasoline in the United States was $1.50 per gallon, compared with about $2.47 in 1981 (in 1999 dollars). In addition, the amount of oil the U.S. economy uses per unit of gross domestic product has decreased since 1979. Finally, average fuel economy for the new vehicle fleet—including light trucks and sport utility vehicles—has risen slightly since 1980, although it has been declining since about 1988 with the increasing share of light trucks and sport utility vehicles, which have a lower average fuel economy than cars. If fuel efficiency continues to decline, the impact of higher gasoline prices on consumers will also rise. Moreover, the increased price volatility over the last year may have adverse effects on consumers and the U.S. economy.

California consumed almost 1 million barrels of gasoline per day in 1999, more than any other state in the country. Furthermore, from 1996 through 1999, California's gasoline demand grew at an annual rate of about 1.4 percent. To put these data into perspective, in 1997 (the last year data were available for international comparisons) California was the third largest consumer of gasoline in the world, behind only the United States and Japan and ahead of such major countries as China, Germany, and Russia (see fig. 1).

Figure 1: California's Average Daily Gasoline Consumption Compared With Major World Markets, 1997



Consumption in thousands of barrels per day.

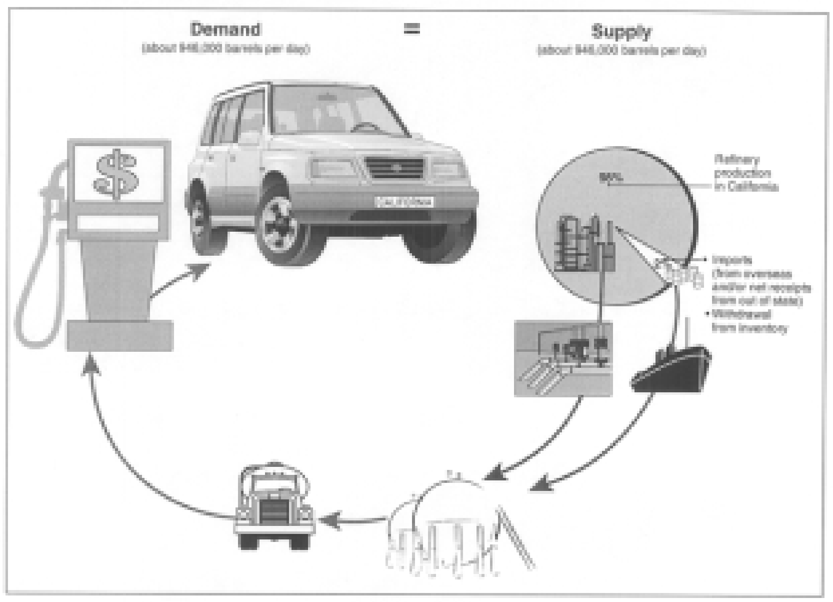
Source: Energy Information Administration (EIA).

According to oil industry, federal, and California officials, in general, California's gasoline demand is met almost entirely by supply from refinery production within the state. In 1999, 23 refineries in California made gasoline: 11, owned by five large refiners, had the capacity to make almost 0 100 200 300 400 500 600 700 800 900 Japan California China Germany Russia 932 911 774 751 530 Refineries 2,000 3,000 4,000 5,000 6,000 7,000 8,000 8017 UnitedStates.California Gasoline Price Behavior 95 percent of the gasoline refined in the state, and 2, owned by independent refiners, had the rest of the gasoline-producing capacity. Other refineries made other petroleum products, such as asphalt and lubricants. Some conventional gasoline and gasoline that met federal standards for reformulated gasoline made by California refineries was shipped primarily to other West Coast markets, such as

Oregon, Arizona, and Nevada.[1] Gasoline is transported primarily by pipeline from the refineries to storage terminals and then, typically, by truck from the storage terminals to retail gasoline stations.

The remaining supply comes from using existing gasoline inventories and from out-of-state providers. Gasoline brought into California from the U.S. Gulf Coast or other out-of-state locations typically travels by water on tankers or barges. Inventories and out-of-state providers generally play a minimal role except during disruptions in refinery production, when they become important supply sources. Events that substantially disrupt the supply of gasoline through this system could have a significant impact on the prices paid by consumers. Figure 2 shows California's gasoline demand/ supply network.

Figure 2: California's Gasoline Demand/Supply Network



Note: Demand/supply data are for 1999.

Source: EIA for demand/supply data; an oil industry official for supply percentages.

To improve its air quality, California established gasoline standards that are more stringent than the federal standards and different from those of any other state. On March 1, 1996, California implemented a program that exceeded the federal requirements for states to use reformulated gasoline in areas with serious ozone problems. The California reformulated gasoline program is administered by the California Air Resources Board (CARB). To make reformulated gasoline to meet the more stringent California standards, referred to as CARB gasoline, California refiners invested billions of dollars to modify their refineries to add sophisticated equipment and processes needed to make such gasoline. According to several industry officials and experts and CARB officials, some refiners, especially smaller ones, that could not make the needed modifications, partly because of high modification costs, shut down their refineries. This contributed to the reduction in the number of refineries in California that can make gasoline.

[1] Reformulated gasoline is designed to reduce harmful exhaust emissions that cause smog.

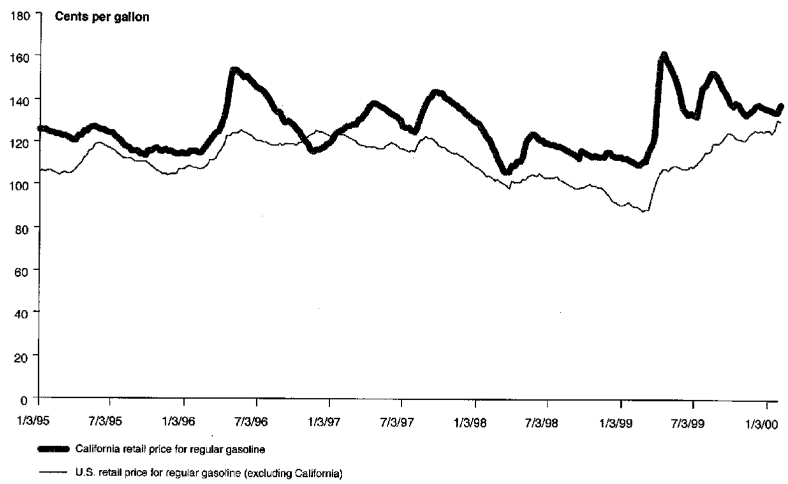
GASOLINE PRICE SPIKES WERE NO MORE FREQUENT IN CALIFORNIA THAN IN THE REST OF THE NATION BUT WERE GENERALLY HIGHER, PRIMARILY BECAUSE OF REFINERY OUTAGES

The retail price of regular gasoline spiked the same number of times in California and in the rest of the United States from 1995 through 1999.[2] However, all but one of the price spikes were higher in California than elsewhere in the country. Many federal, state, and oil industry analysts and officials believe that the California spikes were higher primarily because unplanned refinery outages disrupted the state's tight balance between gasoline supply and demand. In contrast, some West Coast gasoline retailers believe that the higher California spikes resulted from reduced competition at the refinery and retail levels.

Retail Gasoline Price Spikes in California Were No More Frequent but Were Generally Higher

Regular gasoline retail prices spiked seven times in California and in the rest of the United States (excluding California) from January 1, 1995, through December 31, 1999, as shown in figure 3. Moreover, five of the seven California spikes started at about the same time as the U.S. spikes, and six California spikes overlapped the corresponding U.S. spikes by at least 4 weeks. Generally, these spikes coincided with increases in crude oil prices and increases in the demand for gasoline during the spring and summer driving seasons.[3] Price spikes in California and in the rest of the United States occurred at different times only between the fall of 1996 and the spring of 1997. During this period, U.S. prices spiked in the fall of 1996, and California prices spiked in the spring of 1997, with a 1-week overlap.

Figure 3: California and U.S. Retail Gasoline Prices, Jan. 1, 1995, Through Dec. 31, 1999



Source: EIA.

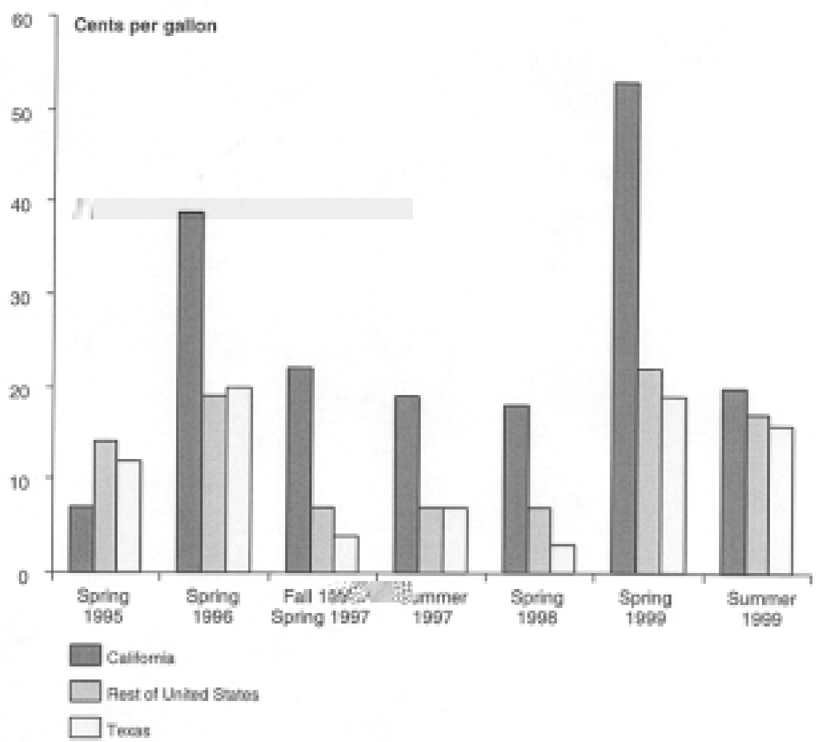
In terms of size, retail gasoline price spikes were higher in California than in the rest of the United States from January 1, 1995, through December 31, 1999, with one exception, as shown in figure 4. During six of the spikes, the California price increases (the differences between the low and high prices) were between 3 cents and 31 cents per gallon greater than the corresponding price increases in the rest of the United States. The smallest difference occurred in the summer of 1999, when California prices spiked 3 cents per gallon higher than prices in the rest of the

[2] Because we found no standard definition of a gasoline price spike, we analyzed gasoline prices in California and in the rest of the United States (excluding California) between Jan. 1, 1995, and Dec. 31, 1999, to identify apparent spikes. During that time, there were seven periods when California and U.S. prices increased by at least 6 cents per gallon in a relatively short period of time—from 4 to 21 weeks. For this report, we refer to these increases as spikes.

[3] The director of EIA's Petroleum Division testified on Mar. 9, 2000, that gasoline retail prices in the United States were about $1.50 per gallon—about 23 cents higher than at the beginning of the year—citing increases in crude oil prices as a major contributing factor.

United States (20 cents versus 17 cents). The largest difference occurred in the spring of 1999, when California prices spiked 31 cents per gallon higher (53 cents versus 22 cents). Conversely, U.S. prices spiked 7 cents per gallon higher than California prices (14 cents versus 7 cents) in the spring of 1995.

Figure 4: Comparison of California, Texas, and U.S. Retail Gasoline Price Spikes, Jan. 1, 1995, Through Dec. 31, 1999



Source: EIA.

In addition, the relationship between California and U.S. prices changed after CARB gasoline requirements were implemented. The difference between gasoline prices in California and in the rest of the United States increased by about 6 cents per gallon—California prices were 10.5 cents per gallon higher than U.S. prices before CARB and 16.9 cents per gallon higher after CARB.

A comparison of the number and size of gasoline retail price spikes in California and in Texas—a large refining state that is comparable to California in terms of its role in the U.S. gasoline market—corroborated our finding that spikes were no more frequent but were generally higher in California than in the rest of the United States. (See app. I for details of this related analysis.)

Higher Price Spikes in California Were Due Primarily to Unplanned Refinery Outages, but Other Factors May Have Contributed

Many oil officials and analysts told us that refinery outages were the primary reason California gasoline prices spiked higher than prices in the rest of the United States. However, some West Coast retailers believe that reduced competition was the primary reason.

Unplanned Refinery Outages Were the Primary Cause of Higher California Price Spikes

California refineries had unplanned outages every year from 1995 through 1999. When such outages disrupted the California gasoline supply, oil companies met demand with gasoline from other sources. They obtained gasoline from out-of-state providers, used existing inventory, and increased production at California refineries whose operations were not disrupted. Obtaining gasoline from such sources was necessary when refinery outages significantly disrupted California's supply, as they did in the following instances:

- On April 1, 1996, an explosion at the Shell refinery in northern California virtually shut down the refinery's production, which amounted to about 100,000 barrels of gasoline a day. Before the Shell refinery was fully repaired, explosions and mechanical problems disrupted operations at several other refineries. According to the Energy Information Administration (EIA), these disruptions affected about 12 percent of the state's production for several months. Our analysis showed that California gasoline prices spiked about 39 cents per gallon that spring. The spike was primarily due to the refinery disruptions, according to CARB and oil industry officials. Gasoline was brought into California from as far away as Finland to make up for the lost production.
- An explosion at Tosco's northern California refinery in February 1999 and subsequent outages in at least three other California refineries significantly disrupted gasoline production for several months, adversely affecting 12 to 15 percent of the state's production, according to EIA and others. California Energy Commission officials and oil industry analysts told us that these outages forced some oil companies. to buy gasoline on the spot market, driving up wholesale prices and, consequently, retail prices. Our analysis showed that California retail prices spiked 53 cents per gallon that spring. Gasoline from U.S. Gulf Coast, U.S. Virgin Islands, and foreign refineries helped lower prices. However, additional problems at several California refineries in the summer disrupted the state's supply again, and these disruptions were exacerbated by a June 10 explosion that shut down part of the Olympic Pipeline, which transports thousands of barrels of gasoline a day from Washington State to Oregon. Federal, state, and oil industry officials told us that the West Coast gasoline market is interrelated and that a major supply disruption anywhere in the region affects supply and prices throughout the region. Our analysis showed that California retail prices spiked 20 cents per gallon that summer. According to EIA, gasoline from the U.S. Gulf Coast and U.S. Virgin Islands was used to meet California's gasoline demand.

Bringing gasoline into California is slow and costly because California is isolated from out-of-state sources in two ways. First, only a few refineries outside the state can make gasoline that meets the state's CARB gasoline requirements. These few refineries are not set up to make CARB gasoline routinely, and they have to reconfigure their refining operations to produce it. Some oil industry officials told us that making the decision and reconfiguring for CARB gasoline production takes up to a week and adds costs for blending, storing, and segregating the gasoline. Second, because California has no pipelines that can bring gasoline into the state, tankers and other means must be used. According to oil industry analysts, CARB gasoline has been brought into California by tankers from the U.S. Gulf Coast, the U.S. Virgin Islands, and countries as far away as Finland, Singapore, and South Korea. According to EIA and oil industry officials and analysts, shipping gasoline into California from these locations takes between 11 and 40 days and adds 3 to 12 cents per gallon to the retail price.

To a limited extent, oil companies have also used gasoline in inventory and have increased output at uninterrupted refineries to meet demand when some California refineries' production has been disrupted. California inventories offered little potential relief because oil companies maintain relatively low inventories to avoid tying up resources. Similarly, California refineries can increase their production to only a limited degree because they are already operating at almost full capacity. According to CARB officials, California refineries were operating at about 97 percent of capacity in 1999.

Reduced Competition May Have Contributed to Higher California Spikes

Several West Coast retailers we contacted and others believe that reduced competition at the refinery and retail levels was the primary reason why California spikes were higher than U.S. spikes from 1995 through 1999. According to the executive director of the California Service Stations and Automotive Repair Association, which represents about 850 gasoline service stations, a lack of competition in California caused the spring 1999 spike. Testifying before the California legislature on April 28, 1999, he noted that consumption in the state increased 30 percent between 1982 and 1999, while the number of refineries decreased from 43 to 23 and the number of service stations decreased from 14,687 to 9,513. Similarly, representatives from the Automotive Trade Organizations of California, which represents the owners of over 2,000 service stations, repair facilities, and related businesses, told us that reduced competition was the major cause of the California price spikes. Additionally, the executive director of the Automotive United Trade Organization, which is headquartered in Washington State, attributed the generally higher gasoline price spikes in California and other West Coast states to the limited competition facing large oil companies in these states at both the refiner and the retail levels. In addition, referring to a 1999 preliminary report on California gasoline prices, the California attorney general issued a press release expressing concern that the relative lack of competition in California contributed to the state's high gasoline prices.[4] We could not confirm that reduced competition was the primary reason for the higher California price spikes because the information needed to do so, such as oil companies' pricing formulas, plans, or policies, was not readily available.

The Federal Trade Commission is investigating gasoline prices in West Coast states, including California, Oregon, and Washington. This investigation was prompted by allegations of anticompetitive behavior by oil companies. As of January 2000, Commission officials had reached no conclusions on the matter.

RETAIL GASOLINE PRICES IN CALIFORNIA RISE FASTER THAN THEY FALL IN RESPONSE TO CHANGES IN WHOLESALE PRICES

According to statistical modeling completed by EIA at our request, from April 1996 through July 1999, retail gasoline prices in California rose faster than they fell in response to changes in the wholesale prices of gasoline. In other words, the pattern of retail price adjustments to increases and decreases in the wholesale prices of gasoline was asymmetric.[5] The modeling did not separately estimate how much faster retail prices increased versus decreased in response to wholesale price changes. A previous study by EIA also found this asymmetric pattern for price adjustments in the Midwest, and the pattern is consistent with the findings of several other studies cited in the EIA report.[6] Figure 5 illustrates an asymmetric pattern of retail price adjustments to wholesale price increases and decreases using California price data over a 10-week period during the price spike in the spring of 1999.

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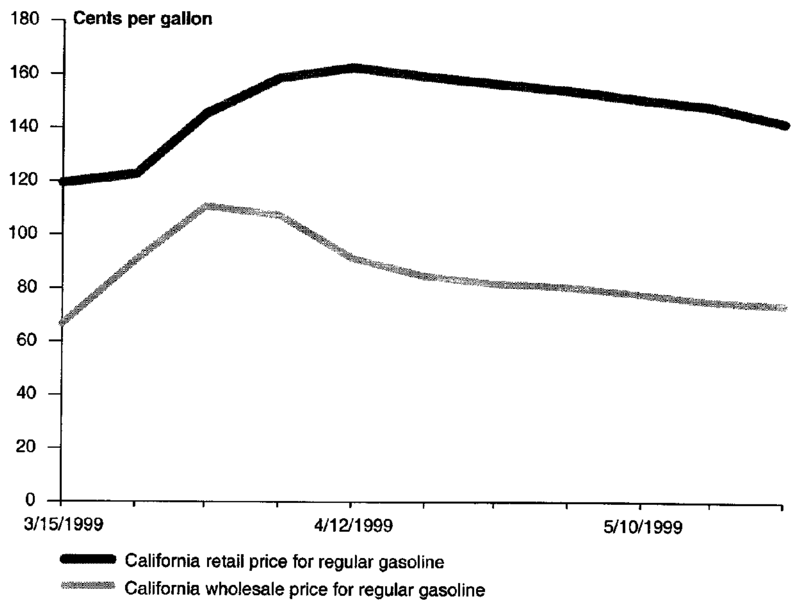
[4] Keith Leffler and Barry Pulliam, Preliminary Report to the Attorney General Regarding California Gasoline Prices (Nov. 22, 1999).

[5] EIA's statistical modeling also tested for the pattern of gasoline retail price increases and decreases in response to changes in the wholesale price in Texas, using Texas data for the same period. The result showed that retail prices in Texas also rose faster than they fell in response to changes in wholesale prices.

[6] See *Price Changes in the Gasoline Market: Are Midwestern Gasoline Prices Downward Sticky?* DOE/EIA, Washington, D.C. (Mar. 1999).

Figure 5: Retail Price Adjustments Relative to Changes in Wholesale Prices



Source: EIA and the Oil Price Information Service.

As the figure illustrates, when wholesale prices rose, retail prices adjusted to this increase by also rising, but with a lag. However, the figure also shows that before retail prices reached their peak, wholesale prices began to fall. Again, retail prices responded to wholesale prices by falling, but with a lag. The figure also shows that retail prices rose at a faster rate than they fell. Although retail prices did not reach the peak of the increase in wholesale prices before the latter started falling, they stayed up longer, or fell more slowly, than the decline in wholesale prices. In this example of an actual price spike, retail prices rose for 4 weeks and fell for 6.

The finding that retail gasoline prices have risen faster than they have fallen in response to wholesale price changes may have little or no implication for gasoline consumers apart from a consideration of the extent to which the wholesale price changes were passed on to consumers. EIA officials told us that their analyses of the data for California and other U.S. markets have shown that while the time taken for wholesale price changes to be fully reflected at the retail level varies among markets, all increases and decreases in wholesale prices were completely passed through to the retail level. According to these officials, because both increases and decreases in wholesale prices are ultimately fully passed through to the retail level, the pattern of the pass-through has little or no adverse impact on consumers. Many of the oil industry officials and experts we contacted also believe that, in general, because of competition at the retail level, retail prices fully reflect wholesale price changes, although they do so with a lag when prices are changing.

To understand why retail gasoline prices may rise faster than they fall in response to wholesale price changes, and because there is no consensus in the economic literature as to why, we discussed this asymmetric price pattern with EIA and other oil industry officials and experts. EIA officials said that the observed pattern is almost entirely driven by the way retail prices respond with a lag to changes in wholesale prices. In general, this explanation is consistent with the description of the price patterns depicted in figure 5 above.

In our discussions with oil industry officials and experts, several of them said that retail gasoline prices probably rise faster than they fall in response to wholesale price changes because retailers try to make up, during falling prices, for revenues lost when wholesale prices were rising. According to some oil industry officials and experts, although retail prices may rise fairly quickly in response to increases in wholesale prices, the increases in retail prices may not always fully reflect the wholesale price increases. They said that retailers exercise caution in raising their prices when wholesale prices are rising to avoid decreased sales and to forestall any backlash from consumers and public officials. Therefore, they explained, when wholesale prices fall, retailers lower prices more slowly in an attempt to recoup revenues lost when prices were rising. Furthermore, some argued that while retail prices may be slow to follow when wholesale prices fall, competition eventually forces retail prices down. The officials and experts we contacted said they did not know what impact this pattern of price adjustments would have on consumers. Furthermore, they pointed out that such price patterns are generally short lived and are not typical of long-run price behaviors.

RETAIL GASOLINE PRICES ARE HIGHER IN SAN FRANCISCO THAN IN LOS ANGELES, IN PART BECAUSE OF LOCAL SUPPLY AND DEMAND CONDITIONS

Retail gasoline prices are higher in San Francisco than in Los Angeles, and these differences have increased since the introduction of CARB gasoline in 1996. The price differences between the two cities are explained in part by local supply and demand conditions, including (1) the number and location of retail gasoline stations, (2) the costs of building and operating gasoline stations, and (3) consumers' incomes. These local supply and demand conditions may not entirely explain the price differences between the two cities. Other factors, such as competition at the refining level, may help explain these differences, but we were unable to obtain proprietary data that would have allowed us to explore this possibility.

Retail Prices in San Francisco Have Been Higher Than in Los Angeles Since at Least 1992

We examined retail gasoline prices from January 1992 through December 1999 and found that with few exceptions, San Francisco had higher prices than Los Angeles.[7] According to data from the *Oil and Gas Journal*, the average difference was about 11 cents over the entire period. Moreover, as discussed below, the average difference grew larger in the second half of the period, from March 1996 through 1999, and grew still further in 1999.[8] Figure 6 shows retail gasoline prices in the two cities from January 1992 through December 1999.

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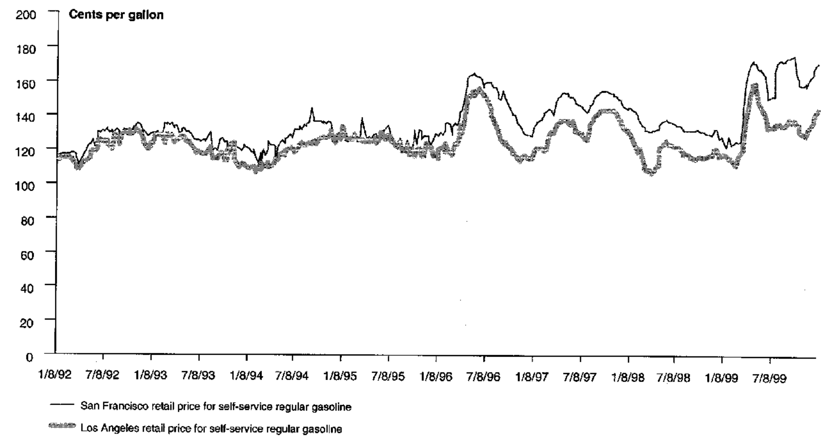
[7] We chose the period from 1992 through 1999 so that we could examine the price differences between San Francisco and Los Angeles before and after CARB gasoline was introduced.

[8] We used data from the *Oil and Gas Journal* to calculate the differences in retail gasoline prices between San Francisco and Los Angeles. We compared these data with data from the Lundberg survey that we received from an industry source. The Lundberg data showed a similar pattern of price differences between San Francisco and Los Angeles, but the differences were about 3 cents per gallon smaller. For example, the average difference between prices from Jan. 1992 through Feb. 2000 was about 8 cents using Lundberg data compared with 11 cents using *Oil and Gas Journal* data. Similarly, according to Lundberg data, the average differences before and after CARB were about 3 cents and 14 cents, respectively, compared with 6 cents and 17 cents using *Oil and Gas Journal* data.

Figure 6: Retail Gasoline Prices in San Francisco and Los Angeles



Source: *Oil and Gas Journal.*

From January 1992 through February 1996, the retail price of regular gasoline was, on average, about 6 cents higher in San Francisco than in Los Angeles, but this difference increased to about 17 cents over the period from March 1996 through December 1999. In addition, refinery shutdowns in the Bay Area in the summer of 1999 further increased the price difference between the two cities to about 38 cents in August and September—the highest difference between 1992 and 1999. The price difference remained above 26 cents through December 1999.

Supply and Demand Conditions Help Explain Price Differences Between San Francisco and Los Angeles

In general, local supply and demand factors help explain why retail gasoline prices are higher in San Francisco than in Los Angeles. On the supply side, according to some experts and industry officials we interviewed, one key factor explaining the price differences is that consumers have fewer places to buy gasoline in San Francisco than in Los Angeles. In 1996, for example, there were about 19 gasoline stations in San Francisco for every 100,000 people, compared with about 25 stations in Los Angeles. One explanation for why there are fewer gasoline stations per capita in San Francisco than in Los Angeles is that land is relatively more developed in San Francisco, which raises the cost of acquiring a site for a gasoline station. For example, according to a recent study, gasoline station development costs—real estate and construction costs—are about 50 percent higher in San Francisco than in Los Angeles.[9] In addition, zoning and other regulations make it harder for station owners in San Francisco to operate convenience stores on the same property as gasoline stations and therefore eliminate profitable secondary sales. Being unable to spread high land costs over gasoline and convenience store sales would tend to make the costs of selling gasoline and also its price higher in San Francisco than in Los Angeles.

On the demand side, the annual per-capita consumption of gasoline is higher in San Francisco than in Los Angeles—in 1996, about 520 and 390 gallons, respectively. Tourists consume part of the gasoline, and on a per-capita basis, more tourists visit San Francisco than Los Angeles. For example, according to a survey done in 1998 for the California Department of Commerce, San Francisco County—with a population of around 783,000—was host to about 10 million leisure visitors, or about 13 per capita. In contrast, Los Angeles County—with a population of about 9,587,000—had about 24 million visitors, or about 2.5 per capita. Travelers to San Francisco County were also more likely to rent cars—about 12 percent of the leisure visitors to San Francisco rented cars compared with about 8 percent for Los Angeles. Besides increasing the total demand for gasoline, tourists may be less inclined than residents to search for low prices, enabling gasoline stations in areas with high

[9] *Gasoline Station Development Issues in San Francisco*, prepared for the Western States Petroleum Association by Kosmont & Associates, Inc. (Jan. 1998).

tourist traffic to charge higher prices. Per-capita incomes are also higher in San Francisco than in Los Angeles, which may make the demand for gasoline in San Francisco less sensitive to price. Finally, the market structure of the two areas may play a role in explaining the price differences. For example, ARCO—a self-declared and commonly recognized seller of low-priced gasoline at the retail level—has a bigger market share in southern California than in northern California, potentially contributing to the lower prices in Los Angeles.

The local supply and demand conditions that led to generally higher prices in San Francisco than in Los Angeles may also explain why these price differences rose when CARB gasoline was introduced in 1996 and why they rose further during refinery outages in 1999. The introduction of CARB gasoline in March 1996 caused prices to rise in California relative to the rest of the United States, in part by raising the cost of refining gasoline. At the same time, the supply of gasoline in California became more sensitive to supply disruptions because no outside source of CARB gasoline is readily available. When the cost of producing gasoline rose, refiners would have passed at least some of the cost on to retailers in the form of higher wholesale gasoline prices, in turn causing retail prices to rise. However, both wholesale and retail prices apparently increased more in San Francisco than in Los Angeles—the gasoline spot price (a wholesale price) rose about 2 cents more in San Francisco, and the difference in retail prices between the two cities increased from 6 cents to 17 cents, an increase of 11 cents.[10] There is no consensus among experts and industry officials as to why higher price increases occurred in San Francisco. One explanation offered is that higher refining costs are easier to pass on to consumers in San Francisco because of its local supply and demand conditions. Another is that the new fuel requirements might have tightened the gasoline supply and demand balance more in the northern part of the state than in the southern part. Consensus is also lacking as to why the refinery shutdowns in 1999 caused such a large increase in the retail price difference between the two cities, particularly since gasoline can be shipped by barge between San Francisco and Los Angeles for between 2 and 4 cents per gallon. However, as noted, local supply and demand conditions may make it easier to pass on refinery costs and wholesale price increases in San Francisco than in Los Angeles.

Other Factors May Play a Role in Explaining Differences in Gasoline Prices

The 1999 preliminary report on California gasoline prices for the California attorney general concluded that there is less competition at the refiner level in California than in the rest of the United States. The report stated that refiners engage in the practice of zone pricing, which enables them to charge different wholesale prices to different retail dealers according to what the market will bear. The report stated that retail dealers pay higher wholesale prices in San Francisco (17 cents higher for the first 9 months of 1999) than in Los Angeles and that these differences in wholesale prices explain most of the differences in retail prices between the two cities. Although zone pricing is not unique to California, this practice could be a significant cause of retail price differences between San Francisco and Los Angeles. However, we were unable to obtain proprietary data on the actual wholesale prices paid by specific retail dealers, and without this information, we could not explore this possibility. Moreover, the ability of refiners to engage in and benefit from zone pricing depends to a large extent on other factors we have addressed in this report. For example, refiners may not be able to charge higher wholesale prices for gasoline if competition among retail dealers will preclude them from passing the higher prices on to consumers.

AGENCY COMMENTS

We provided a draft of this report to the Department of Energy and EIA for review and comment. We discussed the report with EIA officials, including the Director, Petroleum Division. EIA agreed with the report and provided clarifying comments that we incorporated, where appropriate.

SCOPE AND METHODOLOGY

To determine the extent to which retail gasoline prices spike more frequently and higher in California than in the rest of the United States, we obtained and analyzed average weekly price data from EIA for selected retail regular gasoline markets for the period from January 1, 1995, through December 31, 1999. Specifically, we com-

[10] We were unable to gather data on the two other principal wholesale prices—"rack" and "dealer tank wagon"—so we cannot determine the extent to which wholesale prices in general changed when CARB gasoline was introduced.

pared price data for California reformulated gasoline with price data for all formulations of U.S. gasoline (excluding California). We also compared price data for California reformulated gasoline with price data for all formulations of Texas gasoline, using Texas as a benchmark state for U.S. prices. Specifically, we calculated the differences between the low and high gasoline prices in California, Texas, and the rest of the United States during the periods we identified as spikes—when the California and U.S. prices increased at least 6 cents per gallon in a 4- to 21-week period. To ascertain the reasons for the differences, we reviewed expert studies and relevant federal and state records, and we interviewed officials and experts in the oil industry (selected oil companies, consulting firms, and trade organizations) and at EIA and the Federal Trade Commission, the California Energy Commission and CARB, and the University of California at Berkley and Purdue University.

To determine whether California retail gasoline prices rise faster than they fall in response to changes in wholesale gasoline prices, we worked with EIA to develop and interpret an econometric model. This type of model is generally used by energy analysts to determine whether the prices of petroleum products, such as gasoline and home-heating oil, rise at a different rate than they fall in response to wholesale or even crude oil price changes—a phenomenon commonly referred to by analysts as price asymmetry. We used this model to analyze the response of retail prices to wholesale price changes from April 1996 through July 1999. To the extent possible, we used data in EIA's database, which we supplemented with data purchased from the Oil Price Information Service (a private vendor). However, these purchased data were not available at the level of detail needed to fully explain price behavior. To determine the reasons for the gasoline price asymmetry, we interviewed officials and experts in the oil industry, EIA, state agencies, and academia. We also reviewed existing studies and economic literature on gasoline markets.

To determine the extent to which gasoline prices were higher in San Francisco than in Los Angeles, we analyzed data on retail and wholesale gasoline prices for the San Francisco/Bay Area and Los Angeles. To determine the reasons for the differences in the gasoline prices for these two areas, we assessed the potential effects on gasoline prices of such factors as geographical characteristics, barriers to market entry, and cost differences. A lack of data prevented us from fully describing the importance of all these variables. We also interviewed officials from the oil industry, EIA, the California Energy Commission, and academia.

We conducted our work between June 1999 and March 2000 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies to appropriate congressional committees and interested Members of Congress. We will also make copies available to others upon request.

If you have any questions about this report or need additional information, please call me at (202) 512–3841. Key contributors to this report included Daniel Haas, Godwin Agbara, Byron Galloway, and Frank Rusco.

Sincerely yours,

BARRY T. HILL, *Associate Director,*
Energy, Resources, and Science Issues.

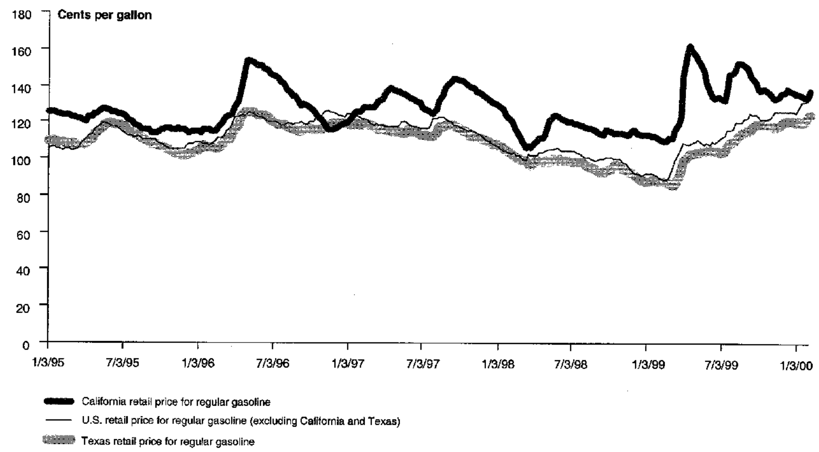
APPENDIX I

COMPARISON OF RETAIL GASOLINE PRICES IN CALIFORNIA AND TEXAS, A BENCHMARK FOR THE U.S. GASOLINE MARKET

We compared gasoline prices in California and Texas to determine whether California prices were different from prices in the rest of the United States. We selected Texas as a benchmark for the comparison because Texas, like California, played a major role in the U.S. gasoline market from January 1, 1995, through December 31, 1999. Texas and California, respectively, were the first and third largest refining states and the second and first largest consuming states.

Gasoline prices in Texas followed a pattern similar to prices in the rest of the United States (excluding California and Texas), increasing seven times, as shown in figure 7. However, two Texas price increases, which averaged less than 6 cents per gallon in the fall of 1996 and the spring of 1998, did not meet the criteria for a spike that we applied to California price increases.

Figure 7: California, Texas, and U.S. Retail Gasoline Prices, Jan. 1, 1995, Through Dec. 31, 1999



Source: Energy Information Administration.

The size of the retail gasoline price spikes was greater in California than in Texas. Six of the seven California price spikes were between 4 and 34 cents per gallon higher than the corresponding Texas price spikes or increases. The smallest difference occurred the summer of 1999 (20 cents per gallon in California versus 16 cents per gallon in Texas), and the largest difference occurred in the spring of 1999 (53 cents per gallon in California versus 19 cents per gallon in Texas). Once, in the spring of 1995, Texas prices spiked 6 cents per gallon higher than California prices (13 cents versus 7 cents per gallon).

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